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United Nations Development Programme

THE ROLE OF THE PRIVATE SECTOR IN INCLUSIVE DEVELOPMENT

# BARRIERS AND OPPORTUNITIES AT THE BASE OF THE PYRAMID



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August 2014

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## FOREWORD

In a few centuries from now, when historians attempt to describe our times in a few concise words, they might very well refer to our age as the era of inequality. They would be right. For never in the course of human affairs has so much belonged to so few.

The scourge of inequality is not just confined to the developing world—even in countries like the United States, inequality has reached record levels. The most recent estimates by the Organisation of Economic Co-operation and Development suggest that the top 1% of the population in the United States earns nearly a quarter of all pretax income, while the average poverty rate in what is commonly thought to be the world's most prosperous nation is as high as 27%. It is not surprising that inequality was the central plank of the most recent US presidential campaign—or for that matter, that a book by an unassuming French academic on the subject is at the top of bestseller lists around the world.

The report *Barriers and Opportunities at the Base of the Pyramid* highlights the magnitude of the problem. As the report states, more than 2.4 billion people in the world live on less than \$2 a day—these are people who run the perennial risk of being reduced to insignificance, both as producers and consumers. As recent events like the Arab Spring have shown, we cannot hope for stability, let alone lasting peace, when more than a third of the world's population is left out of the workings of the global capitalist market.

UNDP's new report on the role of the private sector in alleviating poverty serves as a timely reminder on several different fronts. It reminds us that, before anything, we need to change the way we look at poverty. The modern discourse too often focuses solely on income deprivation. If we are to address poverty in a truly meaningful way, we have to do more than just focus on economic inequality. Instead, we have to pay attention to the socioeconomic factors that deprive the poor of basic human rights and keep them in a self-perpetuating cycle of poverty.

We have to recognize poverty for what it is—the denial of choices, opportunities and mechanisms essential for people to live with dignity. By excluding people from basic social services such as healthcare and education, and by taking away access to safety nets, education, job training and opportunities for entrepreneurship, we deprive the poor of the basic enablers they need to improve their lives and break free of the cycle of poverty.

Indeed, if the post-2015 Sustainable Development Goals are to have a lasting impact, both qualitatively and quantitatively, the responsibility to bring about social inclusion of such immensity cannot lie just with governments, nonprofit organizations or the private sector. Only by working together in a truly interdisciplinary way can we unlock the many spaces from which we have excluded the poor, be it healthcare, education or employment, and thus bring them into the mainstream.

The private sector has an important role in enfranchising the poor. While charitable support can help alleviate suffering in the short term, we have to engage the poorest of the poor so that they too can play a meaningful role in helping spur market growth in addition to enjoying their rightful share of the resulting economic gains.





This change cannot happen overnight. Such a transformation requires more than a reform of our laws or institutions. It requires a change in our minds and hearts—and as our history has shown, a change of this kind is often the most difficult to achieve.

First, we have to change the way we think of the poor. For too long, the popular discourse has focused on the poor as willing recipients of welfare. The discourse of the haves has portrayed the have-nots as people who would be rendered powerless without a persistent culture of handouts. But this dialogue of “us versus them” further perpetuates the cycle of exclusion and keeps the poor stuck in the vicious cycle of poverty.

Executives and business leaders in the private sector also need to expand the focus of their corporate social responsibility programmes. While there are always notable exceptions, most of these programmes achieve few lasting changes and serve mainly as opportunities for public relations departments. Instead, corporations and business leaders alike can use these programmes to achieve a more lasting impact—to further education, training, health and equal opportunity for both the population and the workforce. Such initiatives will deliver on that all-important business metric of the return on investment, because a healthy and motivated workforce is more likely to have a positive impact on an organization’s profits.

Very often in discussions of socioeconomic inequality, we hear of the analogy of a rising tide, and how it should lift all boats. The truth is that in a globalized world where a palm civet in China’s Guangdong Province can unleash a pandemic that kills people in the United States, and where a Tunisian fruit seller can bring down a powerful Egyptian dictator, we are all interconnected to an unprecedented degree. We are all in the same boat. Some might be in the upper cabins, but if something is not done to address the problem, we will all sink eventually.

Today, if our businesses want to harness the forces of capitalism and grow their revenues globally, it is in their interest to have empowered, capable and healthy people in each of the world’s markets. It is my earnest hope that business leaders heed UNDP’s call for inclusion and help create a more prosperous and stable world, one where people can not only achieve their potential but also live with respect and dignity.

A handwritten signature in black ink, which appears to read "El Hassan bin Talal".

**HRH Prince El Hassan Bin Talal**  
**Hashemite Kingdom of Jordan**  
**Advisory Group Chair**



## MESSAGE FROM THE BPPS DIRECTOR

Globalization has fundamentally altered the drivers of growth of our world, making interaction of markets, mobility of capital, labor and knowledge a better way to employ the planet's endowed resources. Diversified opportunities and a decline in extreme poverty and hunger, as well as shrinking development gaps resulted from the market integration process, but so did globalized risks, rapid deterioration of the environment and deepening inequality, all major threats to our stability and cohesion, both now and in the future. More importantly, progress has not reached the point of no return, some of the gains being seriously affected or even reversed by recent political and economic crises and adverse climate change. While 20 years ago the poor lived in poor countries, today three quarters of them live in the most globalized middle-income nations, home to the highest growth rates, widest inequality gaps and toughest climate challenges.

While growth remains a critical factor in the progress of humanity, unless its model integrates all people and optimally uses natural capital, increasing GDP rates alone will never translate into sustainable livelihoods or job-rich development journeys. Technologies and innovation, if not designed to address our heavy reliance on depletable resources and to strengthen our productive capacities in the pursuit of viable solutions for development, will irreparably harm the fragile equilibrium of the world we share. Growth without human development has in recent decades been a trend and a powerful symptom of governance failures, external dependency on extractives-led economies and lack of redistribution of generated wealth, let alone savings for future generations. It has fueled conflicts and trapped large segments of societies in poverty and vulnerability, making prospects for lasting peace and shared prosperity highly uncertain.

Despite significant development achievements over the last 15 years owing to broadening global partnerships and concerted efforts, we have yet to mobilize globally to achieve key elements that rank high among the enablers for stability: less than 500 days away from the end-period of the Millennium Development Goals (MDG), major contrasts remain in people's access to growth and in the exercise of human rights and fundamental freedoms, tolerance and inclusiveness.

The success by numerous Member States in reducing extreme poverty and hunger, as planned in the MDG framework, has run parallel a rapid expansion of inequality: 75 percent of the people around the world live in societies in which income is less equally distributed than it was 20 years ago; over 2 billion people still live on less than US\$ 2 per day and have no access to electricity; catastrophic health events, bad weather, climate vulnerability or crashes in commodity prices are eroding, if not destroying, decades of fragile gains of development for those who managed to lift themselves above the poverty lines but did not attain a consolidation above a social safety net.

Using a rich body of evidence, economists of several renowned universities have concluded that the level of income is a necessary but not sufficient condition for an individual to overcome poverty, its destructive impact on health and access to opportunities. Income alone is too unstable to being enough.

If people do not make enough money today to eat well, attend school, protect their health and live in decent conditions, the likelihood to earn more in the future is severely compromised, poverty becoming a trap impossible to exit. For people to reach the level of earnings that can limit vulnerability, education, health-care, relevant skills and inclusion are fundamental. Without strong and productive human capital, restoring



an up-trend in the world's economy in the wake of the global crisis will be a difficult process, and a very slow pickup in demand will have a major negative impact on businesses. If billions cannot consume to meet their basic demands, global supply will shrink, unemployment will continue to grow and instability can be expected to intensify.

Sustainable development requires a joint commitment to placing people at the core of progress and modernization so that we can overcome the prospective scarcity of resources through innovation and more knowledge-based growth. Such an endeavor cannot be achieved if opportunities are kept out of reach for billions of people forming the bottom of the income and social welfare pyramid.

In contributing to the new development agenda beyond 2015, UNDP has made the voice of over 3 million people heard in over 190 countries. Public debates allowed participants identify the world's top five priorities: good education, better healthcare, an honest and responsive government, better job opportunities and access to clean water and sanitation. The new development agenda builds on the interaction of factors: a vibrant economy, sustainable consumption and production patterns, social protection, peace, stability and effective, democratic governance. The SDGs are envisioned as horizons that require complementary action by all actors, the state, corporate businesses and civil society.

To encourage a more substantial role for corporations in poverty reduction and social inclusion, UNDP and its Global Policy Center for Private Sector in Development (The Istanbul Centre), through a stellar partnership with top-class universities and think-tanks, businesses and international development organizations, has coordinated the production of the *Barriers and Opportunities at the Base of the Pyramid* report. The report attempts to capture knowledge for UNDP and its partners on how to build more inclusive and equitable markets for human development in the 21st Century.

A handwritten signature in blue ink, appearing to read 'Magdy', is centered on the page.

**Magdy Martinez-Solimàn**  
**Director**  
**UNDP Bureau of Policy and Programme Support**



## MESSAGE FROM THE IICPSD DIRECTOR

To leverage the role of the private sector in poverty reduction and social inclusion and accelerate the completion of the Millennium Development Goals, the United Nations Development Programme and the Government of Turkey established the Istanbul International Center for Private Sector in Development to operate as a centre of excellence, espousing a global mandate that aims to make markets more inclusive.

21st century, inequality has deepened, with more than 4 billion of 7 billion people living on less than \$1,500 a year. Though around 30% of people are lifted out of poverty annually, an equal number fall below the line. The insufficient spending capacity of half the population makes the rapid restoration of growth highly uncertain and, in the long run, challenges the stability of the global system. At the same time, a \$6 trillion market offers considerable opportunities for the private sector to expand, integrating the poor as suppliers, employees and entrepreneurs and increasing their purchasing power—prerequisites for further growth.

But doing business with the poor faces barriers that governments, private sector, civil society and the international development organizations are committed to removing to allow for more sustainable solutions to the unmet needs of such a large share of the global population. Understanding barriers and needs at the base of the pyramid can help the private sector better manage risks and adopt business strategies that can secure financial returns while also creating social value. This objective has prompted our interest in putting together the knowledge and practical experience that scholars and business executives have gained over years of seeking to reverse inequality and build markets from below.

A few enthusiastic people at the UNDP Istanbul International Center for Private Sector in Development prepared the concept and persuaded renowned poverty experts and academics to embark on the difficult, yet interesting mission of elaborating what we call today the “Barriers and Opportunities at the Base of the Pyramid” Foundational Report. Disaggregating poverty into the subtle ways it affects people’s lives from childhood to retirement and beyond has revealed answers to our questions about what policies and interventions may actually lead to ending deprivation and exclusion in our lifetime. And several important private sector actors have shared their experiences in transitioning from traditional corporate social responsibility practices to inclusive business models, placing people at the core of their development strategies and overcoming barriers in low income markets by investing in local competitiveness. A series of international organizations have also joined in, emphasizing the role of aid in leveraging a broader and more impactful role of the private sector in development while working with governments to remove regulatory and social barriers that prevent people from living in dignity and in full pursuit of their human rights.

We strongly believe that *Barriers and Opportunities at the Base of the Pyramid*, through its powerful lessons and examples, is a path for all actors promoting sustainable development. In many different ways, we all carry the responsibility of ensuring that, while we promote growth, we grow together.



In the lead up to the finalization of the Post-2015 Development Agenda, a few more answers are needed to questions about what we care most for in a world that witnesses expansions of extremism and violence. The world we want should continue to experience great technological advancement in health, education, energy, water management and climate control. But progress and innovation cannot make our planet a better place unless they free humanity from poverty and hunger. There is a great challenge before us all—an opportunity for building a more cohesive society and, ultimately, a safer human and natural environment for future generations to come.

I wish to thank colleagues and partners who have dedicated long days and months to the completion of this report and its relevance to the development work for which the UNDP Istanbul International Center for Private Sector in Development was established. This is the first step towards better understanding the complex mission of integrating the lower yields of the income pyramid in the new model of growth—and the beginning of a journey for sustainable development that I invite you all to embark on.

A handwritten signature in black ink, appearing to read 'Simona', is centered on the page.

**Simona Marinescu, PhD**  
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## ACKNOWLEDGEMENTS

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The initiative rests on the insights of a distinguished group of former and current policy-makers and leaders, who have identified policy implications for both the private and public sector. Enabling more effective roles towards poverty reduction, the contributors of the Advisory Group have been invaluable to the report.

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Owed to their institutional experience, the contributing organizations played a crucial supporting role in the elaboration of the report, actively engaging both substantively and qualitatively.

Ashoka Turkey  
 Columbia Global Centers | Turkey  
 International Cooperation Platform  
 KPMG International  
 Turkish Cooperation and Coordination Agency  
 The Union of Chambers and Commodity Exchanges of Turkey

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The report has significantly benefited from a diverse group of external reviewers who have strengthened the analytical insights on opportunities for the private sector, as well as the practicality of the recommendations in the report.

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## ACKNOWLEDGEMENTS

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## ACRONYMS

ADC	Alternative delivery channel
AMK	Angkor Mikroheranhvatho Kampuchea
AT	Assistive technology
ATM	Automated teller machine
CHW	Community health worker
CSR	Corporate social responsibility
ECF	Enterprise Challenge Fund
GATE	Global Initiative on Assistive Technologies
HOME	Home Observation Measurement of the Environment
ICT	Information and communication technology
KSAOs	Knowledge, skills, abilities and other characteristics
MDGs	Millennium Development Goals
MFI	Microfinance institution
MMT	Mobile money transfer
NCD	Noncommunicable disease
NGO	Nongovernmental organization
NTDs	Neglected tropical diseases
O*NET	United States' Occupational Information Network
PSP	Private sector provider
SDSN	Sustainable Development Solutions Network
SIS	Susceptible-infected-susceptible
SME	Small and medium enterprise

**1. AN ECOLOGICAL APPROACH TO  
UNDERSTANDING THE BARRIERS  
TO REDUCING POVERTY**



## 1. AN ECOLOGICAL APPROACH TO UNDERSTANDING THE BARRIERS TO REDUCING POVERTY

Poverty has been defined and redefined to mean many things—from the deprivation of well-being or basic human needs, to a lack of fundamental freedoms of action and choice, to living on less than \$2 a day or some other financial indicator, definitions as diverse as poverty itself.<sup>1</sup> This report does not claim as ideal any definition to poverty, because any such definition depends on its intended use. For instance, defining poverty in terms of income might be useful for making one eligible for a government-sponsored cash transfer to ensure that people remain above a poverty line—or to qualify for another welfare programme. Other definitions highlighting the hardships from poverty may be useful in provoking action or soliciting donations.

The report presents an ecological approach to understanding the determinants of poverty with the aim of facilitating and stimulating innovative approaches to private sector-led poverty action. This ecological approach to poverty is defined and presented as a complex web of accumulating and interacting disadvantages

**This ecological approach to poverty is defined and presented as a complex web of accumulating and interacting disadvantages that sustain and perpetuate a life of socioeconomic exclusion. Together, those disadvantages represent a series of systemic barriers to poverty reduction that drastically limit one's ability to overcome the adversity of a life of poverty.**

that sustain and perpetuate a life of socioeconomic exclusion. Together, those disadvantages represent a series of systemic barriers to poverty reduction that drastically limit one's ability to overcome the adversity of a life of poverty. The report strategically presents poverty in this way to facilitate as many entry points as possible along the web of disadvantages to stimulate action directly towards removing some of these barriers (figure 1.1).

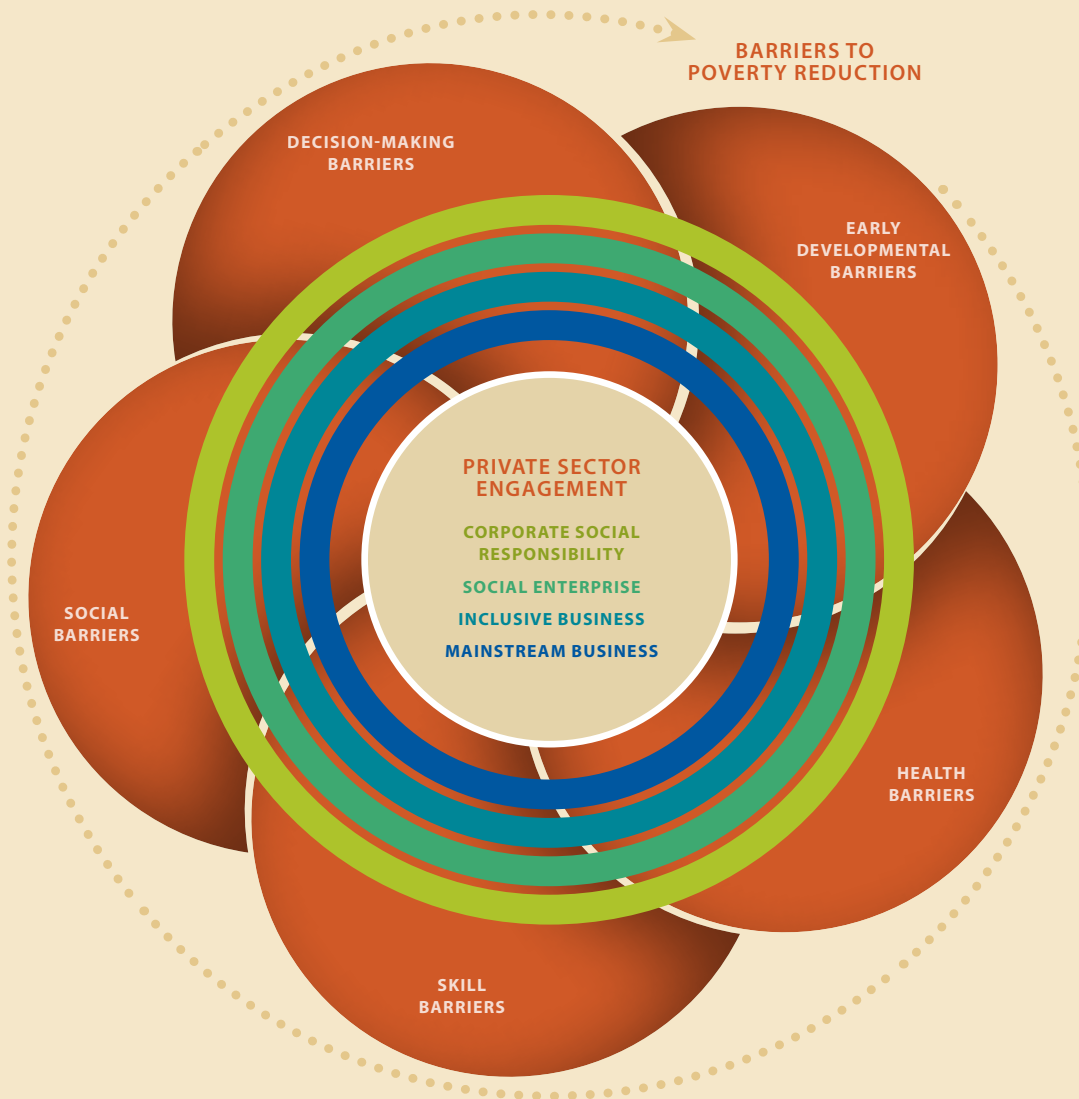
This is a micro-level view, focusing on the impact of material deprivation on the individual and on the disadvantages that can result. While this level of analysis should not preclude the importance

of considering and addressing barriers—at the institutional level, such as the ill-preparedness of school systems to address illiteracy in adulthood, and at the political level, such as a regulatory environment stifling of small-scale entrepreneurship—the approach reveals the most accessible avenues for the private sector to directly intervene along the web of disadvantages. Thus the chapters that follow examine in detail how these disadvantages manifest and hinder an individual's ability to escape poverty. Children in poverty are disproportionately exposed to environmental toxins, stress, poor nutrition and parents with higher levels of anxiety or depression, all impairing early developmental trajectories, setting the child at a life of disadvantage from the onset. People living for prolonged periods in poverty also face higher disease burdens, disability rates and workplace accidents, all with profound financial and social ramifications.

This adversity is compounded by a lack of access to learning opportunities, widening a skills gap at the base of the income pyramid—a major factor in un- and underemployment. Once in the workforce, people affected by poverty often confront classist discrimination that wrongly equates economic security with purely personal merit—and poverty with laziness and a lack of interest in self-improvement. Living in poverty can also impair one's sense of self, inducing attitudes, feelings and behaviours that undermine the ability to succeed. And the situation of poverty—lack of control over one's environment, high levels of uncertainty and unpredictability of outcomes, compounded by low social status—frequently leads to economically suboptimal decision-making that may be adaptive, and necessary, in the short term but that ultimately further undermines financial opportunities and prosperity.



FIGURE 1.1 AN ECOLOGICAL APPROACH TO UNDERSTANDING THE POVERTY CYCLE



This ecological, micro-level approach is rooted in the notion that the private sector is intrinsically innovative and that businesses ceaselessly present solutions to their target consumer base, solutions stemming from a profound understanding of its needs and wants. So, **the underlying assumption of this report is that by presenting a more profound assessment of the barriers people affected by poverty face, the private sector can more successfully formulate innovative solutions with and for them—as well as strategically help select and effectively implement poverty reduction initiatives that more accurately reflect their needs and aspirations.**



## 1. AN ECOLOGICAL APPROACH TO UNDERSTANDING THE BARRIERS TO REDUCING POVERTY

The report is unique in its definition of poverty as an interrelated and interacting accumulation of disadvantages, which together represent a series of barriers that can perpetuate a life in poverty. Complementing this definition is a unique vision of the private sector's role, which goes beyond the creation of shared values, jobs and economic opportunities to target the causes and consequences of disadvantages. As this report will show, the inventiveness and dynamism of the private sector is increasingly being directed towards social purposes, helping break down many of the barriers while simultaneously achieving commercial sustainability. The report highlights these successes and points to new areas for growth and collaboration.

By focusing on the accumulation of these disadvantages, the report shows that the experiences of poverty are not unique to “the poor”—thus demystifying why and how one becomes and remains poor. Most people will at one point in time experience some of these disadvantages. The difference, however, is that those living in poverty are likely to experience disadvantages that are more sustained (a longer, if not indefinite, duration), more systematic (unable to remove from the situation causing the disadvantage) and more chronic (in their severity).

Viewing poverty through this ecological and micro approach shows that anyone can experience similar adversities. The difference lies with the readily available resources to overcome these disadvantages, as well as preventing or mitigating their accumulation. In other words, the ability to recover from disadvantages and other adversities—which is based on both external affordances and individual resources—is what separates “the poor” from the nonpoor.

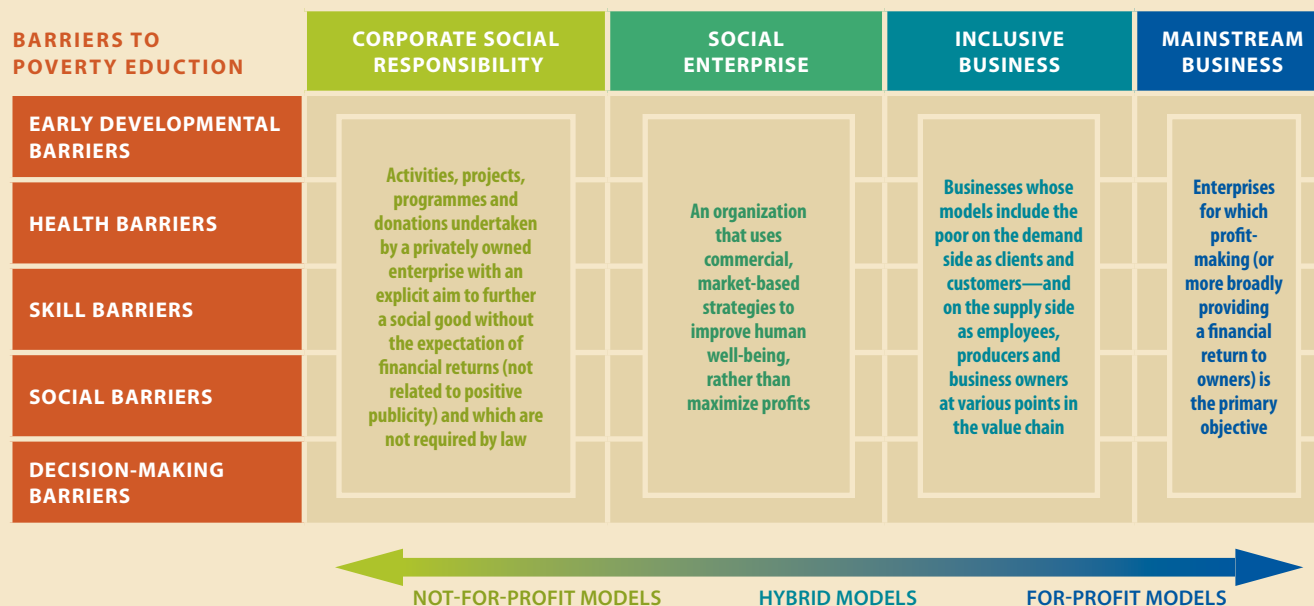
Exposing these systematic barriers to poverty reduction can spotlight entry points for various categories within the private sector, spurring inventive and innovative problem-solving around a given barrier or set of interacting barriers. The report thus discusses the barriers at length, and identifies their role in perpetuating a life of socioeconomic exclusion, where choices and opportunities are scarce. While there is a well-established literature on the adverse impacts of poverty based on scientific inquiry, and a rapidly growing line of research on sustainable business solutions to poverty alleviation, the report is unique in compiling these impacts and solutions systematically, linking the opportunities for businesses to contribute to the removal of barriers to reducing poverty (figure 1.2).

The report maps out the insights in the chapters for the private sector to facilitate interventions along the cycle of poverty. It does not discuss indicators of poverty reduction, which have been examined extensively elsewhere.<sup>2</sup> Instead, it aims to stimulate sustainable solutions by challenging and provoking the innovative problem-solving skills in the private sector through an experiential depiction of the barriers facing the most vulnerable and disadvantaged.

By design the report does not discuss location or situation. Instead, it offers generalizable insights that are valid wherever poverty is present. This is not to discount the importance of history, culture, geography, political and economic systems, and the differing realities that exist for people affected by poverty from country to country. These are all important to grapple with when implementing programmes in a given place and time. But poverty is characterized by disadvantages that are common across borders, cultures and languages and that transcend location to encompass anyone who experiences sustained and severe material deprivation.<sup>3</sup> These are the characteristics that each chapter examines and that underpin the analysis.



FIGURE 1.2 APPROACHES ANALYSED FOR PRIVATE SECTOR ENGAGEMENT IN POVERTY REDUCTION EFFORTS



## PRIVATE SECTOR APPROACHES

Each chapter discusses barriers to poverty reduction through a different lens, concluding with specific directions and opportunities that the private sector can pursue to more strategically contribute to poverty alleviation. The term “private sector” is quite broad, with a wide variety of interpretations and definitions, and can encompass a diverse array of actors whose purpose, organizational structure and legal status all vary.<sup>4</sup> To meaningfully discuss the role of the private sector, it is necessary to disaggregate it into its players, which this report does based on their commercial logic. While there is no one right way of doing this, the method here fulfils a functional purpose and permits the division of private actors based on the unique approach each can take in overcoming the accumulation of disadvantages facing those in poverty.

Dividing the private sector in this way produces four categories: corporate social responsibility, social enterprise, inclusive business and mainstream business. A description and analysis of each category follows, along with a discussion of why each category would engage with the barriers described. The report recognizes that private actors will have different reasons for engaging in poverty settings, depending on their purpose, organizational structure and economic logic. Outside its corporate social responsibility programmes, a mainstream business usually will not enter the Kibera slum in Nairobi, say, for the same reason or with the same goals as a social enterprise. Each of these categories will have different motivations and use different



logic when engaging with people living in poverty, from pure philanthropy to straightforward profit seeking or a blend of both, and all forms of engagement have a role. Furthermore, it is also important to note the complexities, variations and interrelationships among the categories—for example, social entrepreneurship can overlap with inclusive business, and indeed transition into it after reaching scale.

Finally, entities and programmes within each category will likewise come in varying sizes and scales, spanning micro, small, medium and large enterprises, from small individual-owned businesses to multinational corporations. Poverty is a complicated phenomenon, affecting individuals on multiple interlocking levels, so solutions to poverty must be multilevel and multidimensional, involving all sectors of any give context.

## **CORPORATE SOCIAL RESPONSIBILITY**

Corporate social responsibility (CSR) encompasses activities, projects, programmes and donations of a business to further a social good without the expectation of direct financial returns and that are not required by law. Despite their primary social aim, such activities can be undertaken to secure a social licence to operate, earn positive publicity, attract customers and employees or simply serve as an expression of support for a community.<sup>5</sup> Furthermore, CSR programmes can be initiated by any type of business, be it an inclusive business, social enterprise or mainstream business. Within this definition, the report further distinguishes between “internal” CSR programmes that target a firm’s employees and their families and “external” programmes that focus on the larger community—locally or more widely—in which the firm operates. CSR brings direct benefits to organizations, from increased financial performance and an enhanced reputation to improved employee engagement and retention.<sup>6</sup> But it may also have other benefits for community and company alike,<sup>7</sup> including greater skill development and empowerment stemming from positive work cycles in the workplaces of community members (chapter 4).

When core conditions for decent work are met, businesses have a wide range of internal and external CSR options that directly tackle the developmental, health, skill, social and decision-making barriers to poverty reduction (chapters 2–7). Examples of these opportunities are included at the end of each chapter. Internal CSR efforts include but are not limited to enhanced compensation and flexible time off, culturally respectful participative decision-making structures, and initiatives for enhanced workplace diversity, integration

and inclusiveness (chapter 4). External CSR can be categorized as that aligned with an organization’s core purpose (such as biomedical firms tackling health and disease prevention, as in chapter 3) and that not so aligned (such as allowing workers to volunteer on company time for a charity of their choice).

Formal definitions of CSR are codified within such international standards as ISO 26000 or the United Nations Global Compact, focusing on responsible

business practices, including human rights, preventing corruption, ensuring decent social and labour conditions and addressing impacts on the physical environment.<sup>8</sup> The triple bottom line, which tracks a company’s social and environmental impact alongside financial performance, is one manifestation of this approach, as

**Even though CSR efforts do not have financial profit as their primary motive, they can create shared value by strengthening the social communities and ecosystems around them.**





is being a good corporate citizen. These might be understood as applications of the “do no harm” principle, in which a company tries to eliminate or lessen the negatives of its business operations.<sup>9</sup>

Yet there is potentially much more to CSR. Even though CSR efforts do not have financial profit as their primary motive, they can create shared value by strengthening the social communities and ecosystems around them.<sup>10</sup> When implemented in partnerships between private sector organizations and local communities, especially by organizations that employ a large number of people at the base of the pyramid—and when the project is mediated by an organization with expertise in the particular community development activity, CSR can also contribute to human development in addition to a business’s financial sustainability in the short, medium, and longer terms.<sup>11</sup> At the core of successful CSR initiatives are developing mutual trust among all stakeholders and partnering on projects that are measurable, attainable and realistic with timely goals.<sup>12</sup>

An enterprise’s enhanced and sustained financial prosperity and success in enacting social change may eventually continue to be transformed into more numerous and robust internal and external CSR efforts. This could create a positive CSR feedback loop by boosting recruitment and reputation, raising profits and increasing employees’ expectation that their employer should create positive social change—committing more resources to CSR in the future.<sup>13</sup>

## Internal CSR

In alignment with research on human resource management and the International Labour Organization’s Decent Work Agenda, before any internal CSR efforts can occur, the foundational requirements of decent work must be in place. They include providing employees with living wages, safe and secure working conditions, sufficient economic security in case of accidents or illness, fair and equitable treatment and the opportunity to voice concerns and participate in decision-making about working conditions.<sup>14</sup> For example, a key point to emerge from the Rana Plaza disaster is that supply chains are part of a corporation’s responsibility; but efforts to ensure that the compromised working conditions do not occur again should be considered a mandatory requirement of a decent workplace, not optional CSR. Once decent working conditions are ensured, major internal CSR options include:

- *Greater compensation and flexible time off.* Compensation and employment contracts that allow employees greater job security, flexibility and wages than what is required for decent work are major ways that the private sector can reduce barriers to poverty reduction through employee well-being, productivity and empowerment.<sup>15</sup> Flexible working arrangements can provide employees with opportunities to attend to their health and well-being and that of their families. Positive human resource strategies, likely including those that give employees enhanced job security and financial resources, might help employees overcome or better yet prevent potentially demotivating, stressful and distracting aspects of having severely limited financial resources (chapter 6); and can provide opportunities for empowerment and greater satisfaction with one’s work.<sup>16</sup>
- *Decision-making.* Having both a meaningful voice at work and opportunities for culturally respectful and meaningful participative decision-making are fundamental aspects of how work provides basic human freedom and dignity. And if self-efficacy is reasonably high, establishing culturally appropriate opportunities for employees to voice their concerns and participate in decision-making can be key ways for enterprises to ensure that their employees perceive workplace procedures as fair—helping ensure



their workers are satisfied and committed at work.<sup>17</sup> By enhancing these opportunities, the private sector might be able to increase the perceived and actual levels of an employee's empowerment at work, with potentially beneficial spillovers to that employee's well-being.<sup>18</sup>

- **Enriched jobs.** Jobs within private sector organizations exhibit characteristics that shape not only their effectiveness, but also the skill development, satisfaction and well-being of workers. Indeed, despite an incomplete understanding of how culture and socioeconomic development shape jobs and their effects on people, the characteristics of jobs are key ways in which fundamental human needs can be met.<sup>19</sup> Through the strategic analysis and design of work, an organization can enrich its jobs by adjusting employee autonomy, increasing the variety and complexity of tasks and skills used on the job, ensuring that employees are aware of their performance and the benefits of their work to the organization and guaranteeing that employees have the opportunity for meaningful interaction with coworkers. Perhaps most important, when culturally appropriate, organizations can listen to employee feedback (individually or in groups) on how jobs can be improved to enhance employee performance and well-being. Enriched jobs can lead to stress reduction, the development of new skills, productive collaboration with other coworkers and greater self-efficacy.<sup>20</sup>
- **Diversity and inclusion.** The social barriers to poverty reduction—for example, prejudice, discrimination and confidence-sapping stereotypes (chapter 5)—can carry over into and spill outwards from the workplace and can be directly affected by organizational interventions at two major pressure points: before employment, where people can be denied access to employment, and after employment, where people can be denied fair access to skill development and remuneration (chapter 4). Depending on cultural norms and realities, diversity can be a driver of workplace innovation and creativity—particularly under conditions in which social divisions are downplayed or overcome through shared goals.<sup>21</sup> In addition, diversity training can affect attitudes, knowledge and skills related to effectively and inclusively dealing with diversity in the workplace.<sup>22</sup> For example, diversity training can raise people's awareness of their own biases, including stereotypes.

## External CSR

The academic literature and businesses often analyse CSR efforts for their financial benefits to a business enterprise.<sup>23</sup> Although there is at times a lack of clear evidence about CSR's relationship to societal development in lower income countries—as with government-supported CSR efforts<sup>24</sup>—external CSR efforts do appear to have the potential to benefit human development, especially when in collaboration with organizations that specialize in projects to which the CSR initiative is related. Of particular note is the importance of working, wherever possible, in harmony and alignment with, rather than against or around, host national governments and local civic bodies, as well as multilateral entities like the UN Global Compact.<sup>25</sup> However, like any organized effort to enhance human or environmental welfare, CSR efforts can be either ineffective or harmful when they do not sufficiently respect best-practices in aid and development work—for example, by not respecting cultural traditions of land ownership.<sup>26</sup>

External CSR efforts can be directed at causes, populations or regions that relate directly to the enterprise's main purpose or activity. But many CSR efforts have little or nothing to do with the collective expertise and focus of an enterprise. While these latter efforts can help their intended beneficiaries and are likely well intentioned, they might frequently run afoul of well-established best practices.<sup>27</sup> The recommendations



below can help ensure that a company's engagement with external communities, from CSR to mainstream business practices, follow important principles of successful and responsible community development. These principles include aligning activities to local priorities, facilitating the community's ownership of those activities, ensuring mutual accountability among all parties, avoiding duplication and waste by harmonizing efforts, and using evidence to measure the success of interventions. These principles can be expanded into the following practical recommendations:

- *Choose a project that addresses a community's priorities and deals with a major barrier to poverty reduction.* This report identifies major barriers to poverty reduction; by combining this insight with local stakeholder consultation, the private sector can identify projects that are most likely to create shared value for all involved.
- *Partner with community representatives.* Partnering with local representatives and members of the community that a project targets enhances its chances of success.
- *Work to empower—and where possible, empower to work.* One of the most important outcomes of nearly any CSR effort is empowering community members to continue to help themselves once the project is over. Some of the most empowering projects involved helping local communities develop their own social entrepreneurship and inclusive business solutions—and develop the skills to help themselves.
- *Choose a project in which the enterprise has expertise—or partner with experts.* Reducing poverty, delivering aid and engaging in community development are forms of work like any other and are best done by experts. Engaging in projects related to what a private sector stakeholder specializes in will more likely be efficient and beneficial. It is also a good idea to partner with experts in the applicable type of assistance either from the private sector, public sector or civil society.
- *Partner with related efforts.* To avoid waste, duplication and crowding out local efforts, it is important to research who is doing what in the project area, and whenever possible and appropriate, to partner rather than compete.
- *Evaluate and monitor* external costs and benefits to the local community, possibly in partnership with the research institutions.

In function and design, external CSR has little to distinguish it from efforts of charities, aid and development organizations and philanthropic foundations, except that it is initiated by a profit-making enterprise. In fact, external CSR faces similar challenges faced by these civil society and public sector actors—but often without the track record or experience in community development. But these corporations can bring business-oriented solutions, expertise in their field of business and deep knowledge about the needs of a particular customer base. In contrast, internal CSR refers to policies that directly affect the firm's employees and their dependents and can use best practices in human resources to boost such efforts.



## SOCIAL ENTERPRISE

Social enterprises are commercial, market-based firms that operate to improve human well-being rather than to maximize profits, usually focusing on innovative solutions for people affected by poverty. They can take a variety of institutional forms, but commonly include organizations that pursue primarily social objectives through entrepreneurial approaches and business principles.<sup>28</sup> Social entrepreneurship can address a range of barriers to poverty reduction, from gender inequity and social exclusion to prejudice, discrimination and stereotype threats.

While social enterprises are not designed principally to produce a profit, they do use a business model and generate income to achieve some measure of financial self-sufficiency. Because social enterprises deliver

goods and social services for which public alternatives are unavailable or inadequate, in some cases the public sector or private philanthropy contributes funding or subsidies.<sup>29</sup> Even so, a high percentage of the income of social enterprises generally comes from revenues rather than charitable sources, with any profits reinvested in the enterprise.<sup>30</sup> A charity without a source of commercial income is not a social enterprise, nor is a profit-maximizing company that produces a positive social impact, such as developing new pharmaceuticals.

One function of social enterprises is to provide market access to small, fragmented suppliers and help them become self-sufficient by creating jobs, increasing income and generating a surplus. Such enterprises typically target low income popu-

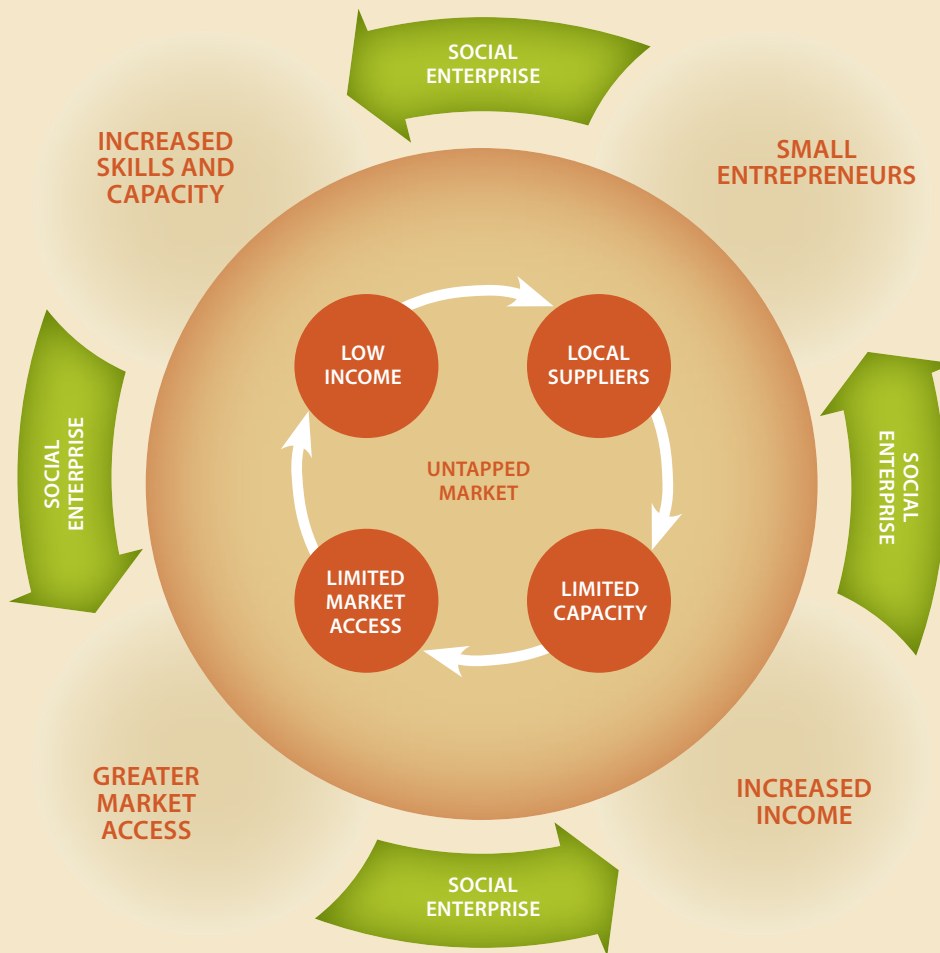
lations with entrepreneurial skills who either lack the resources and capacity to supply enough products in order to capture the monetary value of the existing market demand—or do not have access to a market large enough to sell and profit from their products. Social enterprises can act as intermediaries to bridge the gap between existing market need and efficient supply, to provide capital, training, education, capacity and governance and to bolster the value, efficiency and volume of the supply chain. They may also act as a retail or distribution outlet and thus ensure a profitable exit mechanism for suppliers' production volume. And they can increase the local suppliers' productivity and incomes, enabling them to break out of the viciously repetitive cycle of poverty and to become self-sustaining entrepreneurs (figure 1.3).

Typical legal forms of social enterprises as defined in this report include both private sector organizations and nonprofit organizations, cooperatives and mutual aid societies.<sup>31</sup> Within these forms, there is great diversity in social entrepreneurship activities. Examples of social enterprises include credit unions that promote financial inclusion by offering high quality and affordable financial services to people at all incomes; the low-cost sale of ready-to-use therapeutic foods in new markets and areas where malnutrition is common; low-cost private schools; the targeted allocation of microcredit loans with favourable conditions to people living in poverty; fair trade partnerships; and income-generating training programmes for vulnerable and marginalized populations.

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FIGURE 1.3 BREAKING THE VICIOUS CYCLE FOR ENTREPRENEURS



Perhaps the most famous example of social entrepreneurship is the Grameen Bank founded in Bangladesh by Nobel Laureate Muhammad Yunus, which provides microcredit loans and banking services to people affected by poverty (box 1.1). Principal features of the bank include the lack of traditional collateral requirements for those taking out loans, the need for borrowers to join groups that provide informal forms of accountability and support for repayment, and the deliberate design of loans for poverty-alleviating purposes such as creating self-employment and housing.<sup>32</sup> By the end of 2012, the Grameen Bank had more than 8 million members.<sup>33</sup> More broadly, by 2012, the number of people living in poverty served by microfinance institutions worldwide had increased from 10,000 in 1980 to more than 150 million in 2012.<sup>34</sup>



## 1. AN ECOLOGICAL APPROACH TO UNDERSTANDING THE BARRIERS TO REDUCING POVERTY

Building self-efficacy and increasing empowerment are core components of the self-sustaining business models that define social entrepreneurship. Indeed, at the core of the Grameen model is an effort to enhance the self-efficacy and empowerment of microcredit recipients through self-organized groups.<sup>35</sup> The importance of self-efficacy and empowerment to social entrepreneurship is reflected in successful enterprises' internal processes and characteristics. For example, as in all organizations, leadership—both individual and group based—is often central to social entrepreneurship success.<sup>36</sup> Transformational leadership can be even more relevant to social entrepreneurship than it is to other business models.<sup>37</sup> Transformational leaders help empower others and transform organizations, groups or larger systems by going beyond self-interest and working towards the long-term well-being (empowerment) of others; inspiring others to achieve more than they thought was possible, thus often helping to foster greater self-efficacy in those they lead; encouraging those they lead to think critically for themselves; and providing empathy and support (through mentorships) that help people develop skills needed to succeed themselves.<sup>38</sup>

The development of job-specific and critical-thinking skills can also result in enhanced self-efficacy and empowerment. Successful transformational leadership in social enterprises is likely to include various knowledge, skills, abilities and other characteristics (KSAOs) that support the capability to think and act “paradoxically” by simultaneously pursuing the organization’s social purpose and business fundamentals.<sup>39</sup> Frequently, both goals can be combined in mutually reinforcing ways that promote both greater productivity and empowerment (chapter 4).

Benefits from social entrepreneurship accrue to vulnerable populations that participate in and are targeted by social enterprises. For example, the welfare of children living in poverty and vulnerable farmworkers (such as migrant or temporary workers) could be assisted by fair trade activities that provide greater and more stable financial and social resources for farmers’ families. In general, fair trade is a trading relationship and set of socially conscious business practices that frequently takes place between smallholders in democratically run cooperatives and certifying organizations; this arrangement helps ensure that a premium is paid for fair trade goods by retailers and that workers enjoy decent working conditions.<sup>40</sup> Decent working conditions and various incentives for performance can be important prerequisites for creating productive and empowering positive workplaces (chapter 4). Through socially directed activities like democratic cooperatives and through self-sustaining profit models for certifying organizations and local producers, fair trade can be an excellent example of a global social enterprise movement.

Despite sometimes unclear evidence about fair trade’s actual benefits to vulnerable populations and its ability to combat poverty,<sup>41</sup> fair trade proponents, both big and small, have highlighted its ability to enhance social and economic conditions and to empower people living in poverty.<sup>42</sup> A review commissioned by fair trade proponents concludes that fair trade can provide favourable economic opportunities, that it can promote good environmental practices and that it has positive impacts on empowerment.<sup>43</sup> Indeed, there is evidence that fair trade can have important benefits. For example, in Peru, fair trade farming has been associated with more stable incomes for coffee producers.<sup>44</sup> Fair trade has also been associated with drops in infant mortality in Kenya.<sup>45</sup>



## BOX 1.1 THE SPECIAL ROLE OF ENTREPRENEURSHIP

While nearly all occupations provide social and economic value to society in some way, the role of entrepreneurship in economic growth and human development is special. New ventures can be a dominant source of job creation, market innovation and economic growth,<sup>46</sup> helping lift individuals, families, cities, regions and countries out of poverty. Knowing how knowledge, skills, abilities and other personal characteristics (KSAOs) enable successful entrepreneurship, and the development of small and medium enterprises (SMEs), especially at the base of the pyramid, is particularly important. Indeed, SMEs may create most of the jobs needed for the 470 million who will enter the labour market by 2030. In a recent UNDP study, an international survey of policy-makers also found support for entrepreneurship to be one of the most politically feasible and effective inequality-reducing measures.<sup>47</sup>

The Nobel Prize-winning Grameen approach to microcredit offers two critical insights into KSAOs and entrepreneurship. The Grameen Bank provides small loans (microcredit) to would-be entrepreneurs, including traditionally marginalized people, without requiring collateral. Reasonable weekly instalment payments are required, as is membership in a five-person support group. While repayment responsibility rests solely on the individual borrower, Grameen does not extend additional credit to a group with a member who has defaulted—a potential source of social support and pressure.

At times exceptionally high, repayment rates on loans to the Grameen Bank have

fluctuated. The variability in repayment by highly disadvantaged entrepreneurs clearly indicates that, at least at times, entrepreneurs have exhibited the KSAOs for success. So, even entrepreneurs without entrepreneurship-relevant abilities and personalities can succeed under the right circumstances and with the necessary knowledge and skills (which can be developed through targeted education and training).

Realizing entrepreneurship's full benefits requires attention to more than maximizing the economic solvency of entrepreneurial ventures—and thus repayment rates. Social challenges and benefits should also be considered. By helping people find their way to participate in the labour market, entrepreneurship opportunities can prompt social development. When entrepreneurs become employers, they may train to develop leadership skills. Basic training for people who have never held leadership positions or managed others can promote decent work environments that are humane, satisfying and profitable. Training and developing business skills such as those for hiring, mentoring, managing performance and planning succession are also important.

So, across microbusinesses and SMEs, training design and evaluation based on psychological theory and methods can contribute to entrepreneurial profitability and well-being. This requires research into what contributes to success and effectiveness as an entrepreneur—and into the job requirements that can be readily trained

(communication and management skills) versus those that may be more stable (conscientiousness).

One important contextual aspect of entrepreneurship is the entrepreneur's contact with her or his peers. The Grameen Bank champions 16 decisions through social norms. These include drinking water from tube wells or only after boiling it, growing and eating vegetables all year round, building and using pit latrines, and neither giving nor receiving dowry in weddings. Over the years, the Bank has fostered such social norms, changing slowly the attitude of the borrower. So, the skills that support group interaction and the formation of self-help groups might be important targets for continuing development.

A holistic view of the entrepreneur recognizes that work and workers do not exist in a vacuum. Leaders and their employees have many roles and responsibilities in and outside the workplace, in their homes and communities. They do not shed their nonwork roles (friend, parent, wife, son, pastor, elder, community member) when they walk into the workplace—nor do entrepreneurs when they develop their businesses. Some are returning from long bouts of unemployment, which may require special handling, perhaps to restore feelings of self-efficacy and address deskilling. Others may be dealing with the aftermath of trauma related to war and conflict. To be effective, research and practice need to view the entrepreneur as a “whole person” and recognize interdependencies among work and nonwork roles.



## INCLUSIVE BUSINESS

Inclusive businesses integrate people living in poverty on the demand side as clients and customers—and on the supply side as distributors, employees, producers and business owners. They build bridges between business and for mutual benefit.<sup>48</sup> Inclusive businesses are intended to engage with people affected by poverty who live at the base of the pyramid—those lacking access to essential goods and services due to low incomes or unreliable infrastructure, and facing high-transaction costs and higher barriers to entry when seeking to sell their produce.<sup>49</sup> Inclusive business models expand access to these livelihood opportunities in commercially viable, scalable ways.<sup>50</sup>

Inclusive businesses can build new markets, offer entry into emerging economies, help to spur innovation and strengthen supply chains.<sup>51</sup> People living in poverty benefit by gaining access to vital goods and services, improving productivity and creating sustainable employment.<sup>52</sup> Inclusive businesses differ from mainstream businesses by generally including a social purpose alongside a desire to profit. Furthermore, it is important to note that despite C.K. Prahalad’s initial call for “profit at the base of the pyramid” being directed towards multinational corporations, such initiatives have been developed by all company sizes. Indeed, a recent study shows that only a small number of reported inclusive business initiatives are led by multinational corporations, while scholars have highlighted the important role played by small companies and domestic companies in this domain.<sup>53</sup> To qualify for an inclusive business investment from the International Finance Corporation, for example, a business must be commercially viable and scalable, as well as provide a social benefit by expanding access to goods, services and income-generating opportunities for people living at the base of the pyramid.<sup>54</sup>

**FIGURE 1.4 INCLUSIVE BUSINESS ECOSYSTEM DIAMOND**



Source: UNDP 2013b.

The inclusive business model goes beyond an exclusive focus on people in poverty as a group of consumers to focus on building skills so that they can generate products and services that the market demands. Inclusive businesses think about creating shared value, about making money by increasing the size of the pie for everyone.<sup>55</sup> For that to happen, the model needs to have a much broader scope than just immediate profit maximization. The new model involves creating economic value in a way that also creates value for society by addressing its needs and challenges. Inclusive businesses reconnect financial well-being with social progress, not just out of social responsibility, philanthropy or even sustainability, but also as a new way to achieve economic success.<sup>56</sup> For inclusive businesses, integrating people at the base of the pyramid as suppliers, consumers or entrepreneurs is not on the margin of what they do, but at the centre (box 1.2).





## BOX 1.2 MARKETING TO THE BASE OF THE PYRAMID IN INDIA AND KENYA

Unilever's marketing of Lifebuoy soap to the base of the pyramid in emerging economies like India is prominent and successful inclusive business.<sup>57</sup> Specific business practices used to effectively market Lifebuoy soap include making quality more accessible through smaller kegs (single-serve formats). Consumer trust can also be boosted through partnerships with reputable nongovernmental organizations, which explain to community groups how and why soap use promotes health.<sup>58</sup> As with Lifebuoy, public-private partnerships can be an effective mechanism for profit and social benefits.

The Kenya cooperative insurer, Cooperative Insurance Company, exemplifies inclusive business at the base of the pyramid. It uses mobile phones to sell microinsurance to those in need, including people working in the informal economy who are the least able to cope with unexpected misfortune such as sicknesses and accidents. By texting a short three-digit SMS code to the insurer, street traders and others can gain coverage, paid in instalments of about 20 Kenyan shillings (about \$0.02) at a time, through the phone's money transmission facilities.

Although mobile phones and electronic money transmission services in Kenya have been widely adopted, the uptake of insurance to protect one's family and assets is less common. Africa is reported to have only 2% of global insurance premiums, offering a sizable challenge and opportunity to organizations interested in this market. Bringing insurance to people at the base of the pyramid does not bring quick profits, and it requires sellers to adjust to that environment. Cooperative Insurance Company is said to have expanded into microinsurance because of its commitment to social as well as economic objectives.<sup>59</sup>

This hybrid model of balanced profit making and scaled social impact can take a variety of organizational forms, such as benefit corporations, low-profit limited liability companies or simply conventional companies. In pursuing social ends, inclusive businesses and their investors often accept a lower rate of return and smaller profit margins than conventional businesses.<sup>60</sup> While inclusive businesses, like social enterprises, achieve social goals in a financially sustainable manner, they include a profit-making motive and are generally larger in scope and scale.<sup>61</sup>

Inclusive businesses face numerous challenges when operating at the base of the pyramid, including inadequate financial access, lack of market information, limited knowledge and skills, a weak regulatory system and a poor operational environment. A supportive ecosystem is needed for businesses to achieve sustainable, inclusive growth that has the capacity to scale. The inclusive business ecosystem diamond illustrates the primary components that make up this enabling environment (figure 1.4). Businesses need *information* to operate successfully at the base of the pyramid, including technological knowhow, cultural context, market data and knowledge of local capacity. *Incentives* provide the impetus for businesses to engage in the challenging base-of-the-pyramid environment, and enable the creation of shared value by rewarding positive externalities. *Investment* is required to launch new ventures in high-potential but challenging low income markets. And *implementation support* allows inclusive businesses to function by providing logistical, transaction, marketing and communication, and microbusiness support services.<sup>62</sup> Building nurturing ecosystems is imperative for the acceleration of inclusive businesses. One recent UNDP study indicates that coordination is one of the central challenges facing their development. So, the private sector, government, academia, development agencies and nongovernmental organizations all need to play their role as the "connecting tissue" of this ecosystem.<sup>63</sup> This can be achieved through ecosystem-building initiatives acting as critical enablers (see box 7.5).



## MAINSTREAM BUSINESS

Mainstream businesses are those whose primary objective is profit-making (or more broadly providing a financial return to owners). Depending on the business model and ethos of the owners and managers, various social and environmental impacts will result from the operation of the business—some positive (jobs, goods, services) and some negative (pollution, inequality, overuse of resources). The operation of a business can be influenced by its leadership, regulatory environment and ability to innovate to maximize the positives and minimize (or eliminate altogether) the negatives. One advantage of exploring the challenge of viewing poverty reduction through this lens is the potential to deliver commercial-scale results.<sup>64</sup> The private sector in development generally refers to the role of mainstream businesses, and especially multinational corporations. Mainstream business represents the largest and most consequential part of the private sector, and the pursuit of profit (and returns for owners) is its primary purpose—not achieving development impact or reducing poverty. For this report, mainstream businesses encompass any firm focused primarily on this objective, from small enterprises to multinational corporations.

Mainstream businesses, to engage with the barriers identified in this report, need to find a return on investment that efficiently competes with other uses of capital. Examples might include opening new markets for goods and services, reducing operating costs, pursuing product innovation, reducing risk exposures, securing access to raw materials, increasing the quality of labour, enhancing employee performance at work with positive work cycles and boosting productivity. Naturally, commercial solutions guided by profit cannot be relied on to align with poverty reduction without the policy and regulatory conditions put in place by government or, in some cases, the leadership commitment to innovate for such purposes. But they have the advantage of being scalable, and they can offer a powerful means of reducing poverty.<sup>65</sup>

An inclusive business might enter the market for, say, nutritional supplements in rural Bangladesh, as it would produce a social benefit while generating at least a modest profit in the long term. But a mainstream business would do so only if that offered a higher return on capital than competing projects or some other distinct commercial benefit.<sup>66</sup> For this report, the primary commercial activities of a company are considered separately from any CSR programmes it undertakes, which in general have different purposes and operate using different logic, even when originating in the same firm.

Mainstream businesses contribute to poverty reduction by creating value, enabling opportunity and boosting skill development, prosperity and jobs.<sup>67</sup> While this role is crucial in any long-term strategy to eradicate poverty, the chapters go beyond larger issues of economic opportunity and wealth creation. They provide insights into reducing the micro-level disadvantages of poverty to the individual and the structural barriers that accrue as a result. They also focus on the potential for organizational structures to provide win-win opportunities for poverty reduction and prosperity by promoting human agency, skill development, empowerment and justice at work (chapter 4). Targeted interventions that aim to mitigate and overcome the effects of poverty complement the larger task of growing the overall wealth of the economy. Mainstream businesses have a central role in both efforts.



## Notes

- 1 World Bank 2001; Sen 1999; World Bank 1999.
- 2 See Sustainable Development Solutions Network at <http://unsdsn.org/>.
- 3 Sachs 2005.
- 4 IBON International 2014.
- 5 Chandy and others 2013.
- 6 Aguinis and Glavas 2012.
- 7 Porter and Kramer 2011.
- 8 Jeppesen, Kothuis and Tran 2012; UN Global Compact-PRI 2013.
- 9 Moore 2014.
- 10 Porter and Kramer 2011.
- 11 Porter and Kramer 2011; Aguinis and Glavas 2012; Blowfield 2007; Baena 2009; Lindgreen and others 2010; Idemudia 2009.
- 12 Bhawuk and others 2014; Carr 2013.
- 13 Aguilera and others 2007; Turban and Greening 1996; Godfrey 2005; Waddock and Graves 1997.
- 14 Anker and others 2012.
- 15 Posthuma and others 2013; Seibert, Wang and Courtright 2011; World Bank 2013b.
- 16 Seibert, Wang and Courtright 2011.
- 17 Greenberg 2011; Furnham 2012.
- 18 World Bank 2013b; Erdogan and others 2012; Seibert, Wang and Courtright 2011.
- 19 Oldhan and Hackman 2010.
- 20 Grant, Fried and Juillerat 2011.
- 21 De Dreu and West 2001; Van Knippenberg and Schippers 2007; Jackson and Joshi 2011.
- 22 Bhawuk and Brislin 2001; Kalinoski and others 2013.
- 23 Orlitsky and others 2005; Aguinis and Glavas 2012.
- 24 Ingram 2013.
- 25 OECD 2009; Ingram 2013.
- 26 Weitnzer 2012.
- 27 OECD 2009.
- 28 Martin and Osberg 2007.
- 29 Borzaga and Defourny 2001.
- 30 Rogerson and others 2014.
- 31 UNDP 2008b; Smith and Darko 2014.
- 32 Grameen Bank 2014.
- 33 Grameen Bank 2013.
- 34 World Bank 2013a.
- 35 Bhawuk and others 2009.
- 36 Alvord, Brown and Letts 2002.
- 37 Purdue 2001.
- 38 Barling, Christie and Hopton 2011.
- 39 Bhawuk and others 2014; Smith and others 2012.
- 40 World Bank 2006.
- 41 Ruben and Fort 2012.
- 42 Fairtrade Labelling Organizations International 2012; Abad 2012.
- 43 Nelson and Pound 2009.
- 44 Ruben and Fort 2012.
- 45 Becchetti and Costantino 2008.
- 46 Baum, Frese and Baron 2007.
- 47 UNDP 2013a.
- 48 UNDP 2008a.
- 49 London 2007.
- 50 Jenkins and others 2011.
- 51 UNDP 2010.
- 52 UNDP 2013b.
- 53 Kolk, Rivera-Santos and Rufin forthcoming
- 54 Jenkins and others 2011.
- 55 UNDP 2013.
- 56 London 2009.
- 57 Purkayastha 2008.
- 58 Smith, Peterson and Thomas 2008.
- 59 ILO 2012.
- 60 Asian Development Bank 2012a.
- 61 Nelson, Ishikawa and Geaneotes 2009.
- 62 UNDP 2013b.
- 63 UNDP 2013b.
- 64 Asian Development Bank 2012a.
- 65 UN Global Compact 2013.
- 66 Asian Development Bank 2012b.
- 67 Hammond and others 2007.



## **2. EARLY DEVELOPMENTAL BARRIERS AND OPPORTUNITIES**



## 2. EARLY DEVELOPMENTAL BARRIERS AND OPPORTUNITIES

The timing of child poverty matters, and for some outcomes later in life, including the attainment of good skills and health, poverty early in a child’s life may be particularly harmful. Both human and animal studies highlight the critical importance of early childhood for the brain’s development and for establishing the neural functions and structures that will shape future cognitive, social, emotional and health outcomes.<sup>1</sup> Essential properties of the brain’s architecture are established very early in life by genes (box 2.1) and, importantly, by early experience. Young children’s brains are especially open to learning and enriching influences. Moreover, due to the plasticity of early brain development (box 2.2), children’s brains are more vulnerable to developmental problems if their environments are deprived or characterized by the severe stress so prevalent among income-poor families.<sup>2</sup>

Current knowledge of how poverty affects children’s health, learning and behaviour also emphasizes the contexts for children’s development.<sup>3</sup> It focuses on many environmental influences as mechanisms for poverty and stress that affect children’s early development. For instance, family effects may be monetary investments, emotional and time investments, and parenting that supports learning, health and behaviour.

### BOX 2.1 GENETIC CHANGES

Gene activity can be modified by early experience. Preliminary studies of maternal care, caregiver maltreatment, mother-infant separation and prenatal stress in experimental animal models hypothesize that early environmental influences could produce lasting changes in the nervous system’s gene activity and behaviour. For instance, there are significant associations between childhood maltreatment and developmental disorders later in adolescence and adulthood. In addition, research on adults with histories of childhood maltreatment suggests the modulation of this experience on different nodes of the HPA axis.<sup>1</sup> So, an abusive caregiver in the very first stages of postnatal development could contribute with the modification of gene expression across the lifespan.<sup>4</sup>

Mother-infant separation can also induce genetic changes. Periodic mother-infant separations during a sensitive

period of development modulate genetic mechanisms affecting the synthesis and release of stress regulation hormones.<sup>5</sup> Other prenatal experiences can have profound effects on brain development.<sup>6</sup>

The analysis of early experiences on brain development in humans is in its first stages. Some researchers have examined epigenetic mechanisms in suicide victims with a history of childhood maltreatment, finding changes in the gene regulation of hippocampal glucocorticoid receptors. Therefore, caregiver experiences could modify the brain structures associated with learning and memory processing.<sup>7</sup> Infants of mothers with high levels of depression and anxiety during the third trimester of pregnancy had genetic changes in the production of cord blood cells.<sup>8</sup> And maternal stressors in infancy and parental stressors in preschool periods predict different genetic changes and gender differences in adolescence.<sup>9</sup>

If such changes underlie, at least partially, the long-term impact of early experiences, it may be possible that alterations could be reversed or modified through pharmacological and behavioural interventions. And understanding the role of the epigenome in behavioural modifications driven by early experiences could contribute to understanding more about childhood poverty and brain development.

i The HPA axis is a part of the neuroendocrine system—consisting of direct influences and feedback interactions among the hypothalamus (H), the pituitary (P) and the adrenal glands (A)—that controls reactions to stress and regulates many body processes, including digestion, the immune system, mood and emotions, sexuality and energy storage.



### BOX 2.2 NEURAL PLASTICITY

Neural plasticity in humans may produce structural and functional adaptations in response to the environment, just as animals exposed to motor, sensory and social stimulation in complex or deprived environments show motor, cognitive and emotional changes (plasticity) related to the activation of different parts of the nervous system.<sup>10</sup> The brain seems to adapt dynamically to the environmental cognitive demands.<sup>11</sup>

For white matter plasticity, different mental and developmental disorders can be described by their correlation with cortical connectivity.<sup>ii</sup> The neural representation of a stressful event cannot be localized to a single brain region; it is instead distributed to cortical and subcortical areas and to the neuroendocrine system as well. Thus, the stressful experience depends on the sociocultural individual circumstances and how it shapes the neural networks. Cognitive, emotional and learning development may be characterized by mutually induced changes among neural, cognitive, emotional and learning interactions—in a complex ecological context of social interactions specific to each culture.<sup>12</sup>

ii White matter is one of the main components of the nervous system consisting of glial cells that transmit signals between different areas of the brain. The other main component is grey matter, which is composed of neurons.

There are periods when the human brain is especially sensitive to particular classes of external stimuli—a window temporarily opens when the brain is particularly receptive, contributing to its organization. Several periods are sensitive for aspects of speech development and face recognition.<sup>13</sup> Some evidence suggests that the end of a sensitive period is often associated with the age at which a set of neural circuits serving a given neural processing or function becomes specialized. For example, between 6 and 12 months of age, electrophysiological patterns of face recognition processes become specific for a given stimulus. And at about the same age, the number of cortical areas activated by viewing faces seems to decline. This suggests that the end of the sensitive period of a neural substrate for a given modality of processing coincides with attaining the specialization,<sup>14</sup> highlighting the importance of timing interventions.

For cognitive and emotional processing, the closure of sensitive periods seems to depend on their association with circuits performing either fundamental or high-level computations. For instance, the sensitive period for circuits combining visual inputs from both eyes ends long before that for circuits responsible for recognizing biologically significant objects.<sup>15</sup> So, the timescale and integration of different forms of plasticity should be targets for exploring windows of intervention.

## EARLY NEUROCOGNITIVE FACTORS

Given the high degree of child brain plasticity, disparate socioeconomic contexts can lead to different trajectories of neurocognitive development. The evidence showing critical and sensitive periods for many of these plastic processes requires a revision of the agendas of disciplines addressing child poverty based on the notion that neural impacts are not necessarily permanent and irreversible.<sup>16</sup> This has implications both for research and efforts to fight poverty. A neuroscientific approach can help explain the impacts of social and material deprivation—and the possibilities for preventive interventions to protect and foster human development.

### Nutrition deficits

Nutrients and growth factors regulate brain development after conception. Rapid brain development during the early stages of growth means that there is greater vulnerability to poor nutrition. For instance, moderate nutritional restriction of nonhuman primate mothers during pregnancy can lead to various structural dis-



orders of the nervous system.<sup>17</sup> But the detection of specific nutritional deficiencies depends on how each brain area or neural network is affected—and on the implementation of adequate methods to measure such potential impacts at the molecular, cellular and behavioural levels. For example, iron deficiency has been associated with alterations in the synthesis of different neurotransmitters, the speed of cognitive processing and the performance on tasks with motor, emotional and cognitive demands.<sup>iii</sup>

However, it is difficult to determine the implications of different nutritional deficits for atypical development, since children who lack proper nutrition usually lack other resources. A condition associated with a nutritional deficit could be a direct result of this deficit—or of inadequate prenatal care, inadequate medical treatment or greater exposure to infectious agents.<sup>18</sup>

### Exposure to toxins

*Self-inflicted toxins.* Metals, plastics, and legal and illegal drugs can affect the prenatal and postnatal development of the nervous system.<sup>19</sup> While the impact of these agents can occur in any socioeconomic context, their occurrence increases in poverty-affected contexts. For instance, results from studies carried out in the last decade show a clear connection among poverty (in terms of low incomes), lack of mother education, lack of social opportunities, lack of social capital, family distressed environments, living in social disadvantaged neighbourhoods and the entrance into the illegal drug market and drug abuse.<sup>20</sup>

Numerous studies of foetal alcohol syndrome have demonstrated the lifelong impact of alcohol consumption during pregnancy on neurocognitive development. Specifically, prenatal exposure to alcohol has been shown to have more long-lasting cognitive, social and emotional impacts than that to other substances, which vary with consumption and the time of exposure during pregnancy.<sup>21</sup>

**Prenatal exposure to alcohol has been shown to have more long-lasting cognitive, social and emotional impacts than that to other substances.**

Cocaine exposure during uterine life may affect the development of neurocognitive systems associated with the regulation of attention and inhibitory responses. Preschool and school-age children exposed to cocaine before birth had changes in the speed of response and procedural learning skills<sup>22</sup>—and gender differences in tasks demanding abstract reasoning, visual short-term memory

and verbal reasoning tasks. The impact depends on home stimulation and mother’s verbal IQs.<sup>23</sup> School-age children and adolescents with prenatal methamphetamine and polydrug exposure have altered patterns of connectivity between brain areas devoted to self-regulation and processing learning.<sup>24</sup>

Prenatal exposure to tobacco is associated with lower performance in cognitive tasks demanding auditory attention, working memory and analysis and synthesis processing.<sup>25</sup> It is also associated with higher excitability and greater emotional regulation difficulties in the first months of life.<sup>26</sup> The impacts could sometimes be reduced through adequate parenting and environmental stimulation, even for children living in poverty.<sup>27</sup>

iii A neurotransmitter is an endogenous chemical messenger that transmits signals from a neuron to a target cell across a specialized process known as a synapse.





**Environmental toxins.** Several industrial chemical agents (such as lead, methylmercury, polychlorinated biphenyls, arsenic, toluene, manganese, fluoride, chlopyrifos, dichlorodiphenyltrichloroethane, tetrachlorethylene and polybrominated diphenyl ethers) have been associated with different neurodevelopmental disorders.<sup>28</sup> Exposure to these chemicals during foetal development can cause brain injury. For example, prenatal exposure to either methylmercury or ethanol is likely to interrupt the neurogenesis process, thus leading to different types of mental retardation manifested throughout the first stages of mental development.<sup>29</sup> Children from low income or low socioeconomic status communities are more likely to suffer from the impact of environmental toxic agents on their physical and mental health due to the higher presence of these harmful toxins in their developmental contexts.<sup>30</sup> For instance, lead exposure has been associated with underweight, hair loss, vitamin D metabolic dysfunctions, blood cell genesis dysfunctions, renal disorders,<sup>31</sup> behaviour problems,<sup>32</sup> less self-regulated attention,<sup>33</sup> and poor executive functioning—which includes focused attention, attention switching, working memory, inhibitory control and poor learning in early childhood.<sup>34</sup>

Moreover, about 200 chemicals have been recognized as potential neurotoxicants for adults in laboratory studies, but their toxic effects in the developing brain are not known and they are not regulated to protect children. The two most important obstacles for such a purpose are the gaps in systematic testing of chemical agents for developmental neurotoxicity, and the high levels of proof required for regulations.<sup>35</sup> The recognition of the risks has generated evidence-based efforts to prevent the impact of chemical agents—such as the elimination of lead additives in petrol, the reduction of mercury emissions from power plants<sup>36</sup> or the closure of coal burning power plants,<sup>37</sup> but innovative preventive approaches are still necessary.

Finally, although impacts of some neurotoxic agents on brain development have been identified by high and low exposure at the behavioural and cognitive level, cognitive performance profiles associated with toxic exposure are highly variable. Thus, further research is required on why some children are more susceptible than others to some neurotoxic agents. This would also help clarify the effectiveness of treatments and both regulatory and public policy interventions in the area.

## Responses to stress

The regulation of stress responses is one of the most important mediating mechanisms of the effect of poverty on emotional, cognitive and social functioning.<sup>38</sup> Threats, negative life events, exposure to environmental hazards, family and community violence, family breakups and moves, job losses and economic deprivation are all more likely in poverty.<sup>39</sup> Neural systems implementing the regulation of stress include the hippocampus,<sup>iv</sup> amygdala<sup>v</sup> and different areas of the prefrontal cortex.<sup>vi</sup> Together, these systems regulate the physiological and behavioural response to stress, adapting to short- or long-term impacts caused by difficulties in adaptation, as in situations of chronic abuse or extreme poverty.<sup>40</sup>

The stress and uncertainty caused by economic deprivation increase the likelihood of anxiety, depression and anger. And this may induce more frequent negative parental control strategies and more difficulties in

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iv The hippocampus is a complex component of the brain cortex involved in learning based on the processing of memory and spatial navigation.

v The amygdala is a group of neuronal nuclei within the brain temporal lobes, involved in memory and emotional processing.

vi The prefrontal cortex is the anterior part of the frontal lobes of the brain involved in planning complex cognitive behaviour, making decisions and moderating social behaviour.



promoting appropriate socioemotional adjustment in children.<sup>41</sup> But even in poverty, proper childrearing can be protective,<sup>42</sup> highlighting the importance of interventions at this level.

Cortisol levels combined with the quality of parenting could mediate the effect of family income, maternal education and ethnicity on different cognitive control tasks.<sup>43</sup> In addition, for children in rural poverty, cortisol levels could fall only when mothers had higher levels of depression.<sup>44</sup> This suggests that child poverty and maternal mental health affect the regulation of stress.

The impact of moderate to chronic stress has been associated with the release of a diverse set of brain chemical modulators, which have specific temporal and spatial niches that generate complex phenomena not yet clearly identified.<sup>45</sup> The absence of opportunities for adequate attachment during the early stages of development is associated with hormonal changes involving the neuropeptides vasopressin and oxytocin,<sup>46</sup> both critical for the development of social bonds and the regulation of emotional behaviour.

Physical and sexual abuse during the early developmental stages has been associated with this complex pattern of stress responses, which are assumed to increase susceptibility to mental disorders in adulthood.<sup>47</sup> But vulnerability and susceptibility to chronic moderate stress vary individually, according to the eventual presence of potentially protective factors, such as relationships with caring adults, self-regulation and the social competences of children.<sup>48</sup>

### Early cognitive control and language development

Basic processes in early cognitive control and language development—such as the different subsystems of attention, working memory and flexibility—are among the core of all forms of cognitive activity and social behaviour throughout the lifespan (box 2.3).<sup>49</sup> Different socioeconomic characteristics could affect attention, inhibitory control, working memory, flexibility, planning, decision-making, phonological awareness, memory and learning processes related to different neurocognitive systems in infants, preschoolers and school-age children.<sup>50</sup>

#### BOX 2.3 OPTIMIZING COGNITIVE FUNCTIONING

The primary mechanisms for child development include exploring the environment, expressing basic cognitive and social skills, stimulating language and symbolic communication, reinforcing children’s achievements and avoiding inappropriate parenting.<sup>51</sup> Intervention programmes for children living in poverty include cognitive training and education, as well as environmental maintenance

through parental, teacher and other caregiver involvement in integrated social and educational services.

But not all children benefit in the same way from such programmes. Individual differences arise from multiple interactive factors, among which biological inheritance, environmental risk accumulation and variations in quality of interventions

are crucial.<sup>52</sup> Early childhood education produces persistent, cost-effective improvements in academic achievement and health.<sup>53</sup> But to maximize the potential of impacts on cognitive and social development across socioeconomic status requires increasing the precision of interventions. A promising complementary approach is to focus on the development of neurocognitive systems.



Specific brain regions may be associated with these processes, and the paradigms used would be more specific than those used to measure general cognitive ability (such as scales of intelligence).

Structural (MRI) and functional magnetic resonance (fMRI) neuroimaging and electroencephalography techniques for neural analysis would contribute to a better understanding of these relationships. For instance, research has predicted that the strength of the association between phonological awareness and brain activity will be increased in an environment with low exposure to literacy resources (as in poverty), and reduced in the opposite case. At similar levels of low phonological awareness, children with higher socioeconomic status were more likely to respond more to it, while children with lower socioeconomic status were not.<sup>54</sup>

Among normal 5-year-old children performing an auditory rhyme-judgment task, researchers found that the higher the socioeconomic status, the greater the degree of hemispheric specialization in Broca's area during rhyming tasks.<sup>vii</sup> This also suggests that the maturation of Broca's area in children may be ruled by the complexity of the linguistic environments in which they grow up.<sup>55</sup> The complexity of family language and salivary cortisol were associated with both parental socioeconomic status and prefrontal cortex activation during a stimulus-response task. And in a declarative memory task, subjective social status is associated with hippocampal activation in children.<sup>56</sup>

MRI techniques explore how socioeconomic status affects modulation of different structural brain measures, such as the effects on adolescent brain morphology of parental nurture and home stimulation of early experience during childhood (ages 4 and 8).<sup>viii</sup> Parental nurture at age 4 predicted the volume of the left hippocampus in adolescence—better nurture was associated with smaller hippocampal volumes. But the association between hippocampal volume and parental nurture disappeared at age 8, suggesting a sensitive period for brain system maturation.<sup>57</sup> Parental education is also associated with cortical thickness in some subareas of the prefrontal cortex.<sup>58</sup> And low educational attainment and low socioeconomic status accounted for differences in the volumes and connectivity of different brain areas.<sup>59</sup>

Interest is growing in the potential contributions of cognitive neuroscience to education and learning.<sup>60</sup> This is based on results from different laboratory studies on behavioural training and remediation of basic cognitive processes in healthy and disordered children.<sup>61</sup> Applying cognitive neuroscience to intervention programmes or educational curriculum aimed at improving social disadvantaged children's cognitive development is even more preliminary.

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vii Broca's area is the region in the frontal lobe of the hemisphere of the human brain involved in speech production.

viii An MRI (magnetic resonance imaging) is the imaging technique used to investigate the anatomy of different parts of the body—including the brain—in both health and disease conditions.



## FAMILY INCOME AND INVESTMENTS IN YOUNG CHILDREN'S DEVELOPMENT

Family income poverty, the primary indicator of developmental risk, carries with it a wide range of associated conditions—including lack of access to sanitation and clean water; higher exposure to violence, conflict and displacement; parent malnutrition; lower access to health, educational and other services; lower probability of full-time and sustained employment; and lower wages and educational attainment.<sup>62</sup> The focus here is on linking family income poverty to children's development.

A large body of literature across rich and low and middle income countries converges on the finding that family income poverty hurts children's learning, physical health and mental health.<sup>63</sup> Although most of this literature is nonexperimental, some experimental evaluations of income support programmes and policies suggest benefits for children's development.<sup>64</sup>

Based on insights from the emerging neuroscience literature, a model of development has been proposed in which preschool cognitive and socioemotional capacities are key ingredients for human capital acquisition during the school years.<sup>65</sup> In this model, "skill begets skill," and early capacities can affect the likelihood that later school-age human capital investments will be successful and productive. The model predicts that economic deprivation in early childhood creates disparities in school readiness and early academic success that widen over the course of childhood.

The gaps in educational outcomes between children raised in advantaged and disadvantaged families in rich countries open well before children enter school, and in most cases they do not close as children progress through school.<sup>66</sup> Among US children age 4, those from families in the poorest income quintile score on average at the 32nd percentile of the national distribution on math, the 34th percentile in a test of literacy and the 32nd percentile on a measure of school readiness. Compare that with children in the richest quintile, who scored at the 69th percentile on math and literacy and the 63rd percentile on school readi-

ness.<sup>67</sup> Income-related gaps in school readiness are broadly similar in the United Kingdom,<sup>68</sup> though the United States shows greater inequality in cognitive outcomes at the top of the income distribution.

Gaps in conduct, attention and hyperactivity are also apparent, if less pronounced. On measures of hyperactivity, children from families in the poorest income quintile score on average at the 55th percentile of the national distribution

(in this case, higher scores indicate higher levels of behavioural problems), and those in the richest quintile, at the 44th percentile.<sup>69</sup> The United States shows less inequality than the United Kingdom in behavioural outcomes at the bottom of the income distribution.

Comparisons of preschool-age children in Canada and the United States found that income-related gaps in cognitive and behavioural skills were larger in the United States.<sup>70</sup> And significant inequalities in children's

**Among US children age 4, those from families in the poorest income quintile score on average at the 32nd percentile of the national distribution on math, the 34th percentile in a test of literacy and the 32nd percentile on a measure of school readiness.**



skills emerge in the early years in Australia and Canada as well, though the disparities are much less than in the United States and United Kingdom.<sup>71</sup> The United States shows the greatest disparities, followed by the United Kingdom and Australia, with the smallest disparities in Canada. They are large for cognitive outcomes and smaller for behavioural outcomes.

Children from the top income quintile are reported by teachers to be far more engaged in school than their counterparts in the bottom quintile.<sup>72</sup> The gap is about two-thirds of a standard deviation and grows slightly between the first and fifth grades. The gap by income is larger than that by race or gender.

The large disparities in educational outcomes by family income are also large in low and middle income countries. Because of the dearth of comparable achievement and learning outcomes across countries, the most consistent indicators are for educational attainment. Four times as many children from the poorest income quintile are likely to be out of school than those from the top quintile.<sup>73</sup> The most direct link is with affordability: in the absence of free schooling, parents struggle to send their children to school. Children from the poorest households are also the most likely to be absent from school during harvest times or seasonally for nomadic populations. Parents of children from low income homes have substantially lower levels of education worldwide—leaving them less able to communicate with teachers and to support children who struggle at school. Economic compulsions cause many children to drop out of secondary school and supplement family incomes, who do not have the flexibility of distance learning or flexible hours of high-quality schooling. Children from socially marginalized groups, tribal communities or low castes are also marginalized in the education systems by teachers and peers.

### Monetary investments

Economic models of child development focus on what money can buy.<sup>74</sup> Families with greater economic resources are seen as being better able to purchase or produce important “inputs” into their young children’s development—such as nutritious meals; enriched home learning environments and childcare settings outside the home; and safe and stimulating neighbourhood environments—and with older children, higher quality schools and postsecondary education. Higher incomes enable parents to provide higher quality environments that produce children who are differentially capable, motivated and empowered by their parents to take advantage of educational opportunities.<sup>75</sup>

The positive association between family income and children’s cognitive development is mediated by investments in a stimulating home learning environment.<sup>76</sup> So families experiencing severe income losses are especially susceptible to cuts in spending.<sup>77</sup> Consumption is also reduced as a result of permanent earnings shocks.<sup>78</sup>

In low and middle income countries, the association between spending and children’s development has focused on health and schooling outcomes. Mothers’ control over family resources is associated with greater investments in children.<sup>79</sup> And families in South Africa that benefited from the pension system increased their spending on children’s items.<sup>80</sup> Mothers’ education and assets are more likely to be directed to children’s needs (for clothing and education).<sup>81</sup> A conditional cash transfer programme (largely directed to mothers) increased spending on children’s education and clothing, as well as sources of nutrition that were protein-rich.<sup>82</sup> The mechanism of child expenditures may thus be responsible for the gendered associations of parents’ resources with children’s health and education (with mothers’ education and resources more strongly associated with children’s outcomes such as height or educational attainment than fathers’).<sup>83</sup>



### Emotional investments

Developmental psychology emphasizes the quality of family relationships to explain poverty's detrimental effects on children. This is often called the "family process" perspective. Its models emphasize how higher incomes improve family processes such as parenting behaviours and parental mental health and well-being.<sup>84</sup>

Note that the "investment" and the "family process" perspectives are not mutually exclusive. Indeed, it likely takes a sensitive and responsive parent to scaffold children's experiences with purchased "inputs" into development, such as books and toys. Even so, economic investments tend to link income (level and stability) to measures of children's cognitive achievement, whereas parenting behaviours more often account for linkages between economic conditions and children's emotional adjustment.<sup>85</sup>

In early childhood, three sets of parenting behaviours have linked poverty and family income to children's cognitive and socioemotional development: cognitive stimulation, responsiveness and harsh discipline. In the first years of life, parents' cognitive stimulation includes talking to children, singing songs, playing interactive games (such as peek-a-boo) and reading books.

A famous US example observed the language patterns of 42 socioeconomically diverse families across Kansas City, recording one full hour of every word spoken at home between parent and child in families with children ages 7–36 months. Households were divided into professional, working class and welfare-receiving families (low income families dependent on government assistance). In professional families, children heard an average of 2,153 words an hour, in working class families 1,251 words and in welfare-receiving families 616 words. Extrapolated, children in professional families heard an average of 11 million words in a year, in working class families 6 million and in welfare-recipient families 3 million. By age 4, a child from a welfare-recipient family could have heard 32 million fewer words than a classmate from a professional family. More broadly, speaking to children and playing interactive games, playing with toys and reading picture books are consistently associated with children's early cognitive development (language, pre-literacy, math skills) in rich countries.<sup>86</sup>

In low and middle income countries, most of these same activities have been linked to children's early learning outcomes. But many countries do not have a tradition of young children's literature or picture books and book reading in early childhood. Cultural norms often mediate children's roles in home and community contexts.<sup>87</sup> And these do not always include early home-based development of academic skills such as literacy or math.

Responsiveness is another form of parenting consistently associated with both cognitive outcomes and positive socioemotional development and self-regulation in early childhood in rich countries.<sup>88</sup> Contingent responsiveness is a rapid and appropriate response to an instance of young child communication, whether through gesture, affect or vocalization. In the United States, responsiveness and warmth in the response predict positive outcomes. As previously mentioned, poverty has been associated with lower responsiveness, higher parent stress and greater economic hardship as potential mechanisms.<sup>89</sup> In other countries, warmth is less predictive of this association,<sup>90</sup> which may vary depending on cultural norms regarding affect in parent-child interaction; differences in emphases on authority and obedience; and other cultural and contextual factors (such as the priority of survival, in which case obedience may be more important and valued than early behavioural autonomy).<sup>91</sup>



Despite extensive cultural and country variation in the association of parenting warmth with child outcomes, there is consistent evidence that frequent and chronic harsh parenting in the form of corporal punishment is harmful to children's development.<sup>92</sup> In many countries, corporal punishment is a norm.<sup>93</sup> But this does not mean that such parenting behaviour is daily or chronic. In the United States, higher levels of harsh parenting have been associated with poverty.<sup>94</sup>

Poverty and economic insecurity also take a toll on a parent's stress, well-being and mental health. Aside from individual-specific behaviour, these factors may be important determinants of low income parenting.<sup>95</sup> Family pressures can increase family conflict, inhibit parents' emotional warmth and increase parents' erratic or disengaged behaviours.<sup>96</sup> Depression and other forms of distress can profoundly affect parents' interactions with their children.<sup>97</sup> Ineffective parenting can lead to children's poorer health, emotional adjustment and achievement.<sup>98</sup> One US study used state-level data to show that increases in the fraction of children living in extreme poverty increase child maltreatment.<sup>99</sup>

**A new line of research in developmental psychology extends the literature on stress processes to biological processes. HPA axis functioning has been the most studied mechanism for the association of poverty with children's development.**

A new line of research in developmental psychology extends the literature on stress processes to biological processes. HPA axis functioning has been the most studied mechanism for the association of poverty with children's development.<sup>100</sup> Chronically elevated salivary cortisol, for example, may explain the association between poverty and household risk and early childhood executive function as well as IQ.<sup>101</sup> This largely nonexperimental literature has recently begun to be extended to poverty reduction. In Mexico's Oportunidades conditional cash transfer programme, children with mothers participating in this programme had lower salivary cortisol levels, an association most pronounced among children of mothers with elevated depressive symptoms.<sup>102</sup> Although most of this emerging work focuses on biological mechanisms in children, one study of the Earned Income Tax Credit (work-based income supplement for poor families in the United States) showed that receipt of this income supplement was associated with positive biomarkers in mothers (lower levels of inflammation).<sup>103</sup>

## Time investments

Parents' investments of time in enriching activities—book reading, singing, helping with homework, organizing enriching out-of-home experiences—are important predictors of children's academic success.<sup>104</sup> Studies in the United States show that middle-class parents target their time with children towards developmentally enhancing activities, whereas lower class parents, while attending to children's material and emotional needs, may depend on “the accomplishment of natural growth” when it comes to skills.<sup>105</sup>

Numerous US quantitative studies not only show that differences are large in the time investments of advantaged and disadvantaged parents but also that these gaps remain large even when accounting for other differences across families, such as employment hours and schedules.<sup>106</sup> Most US studies of this type distinguish families by the education of the head of household or the mother, not by family income. The differences are generally substantive in the time-use patterns of college-educated parents versus all other parents. US households with a college-educated parent make up about a third of total households but earn about



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50% of national income. So, college education is a marker of economic advantage in the United States, and maternal time with children increases with education.<sup>107</sup> Conditional on hours worked in the labour market, mothers with a college education spend six more hours a week in childcare than women who did not finish high school and twice more time than mothers who graduated from high school. Because the “education gradient” for childcare time differs from the education gradients for leisure and home production (which fall with education), parental time investments in children reflect a fundamentally distinct phenomenon. Highly educated parents (more so than less educated parents) view time with children as an “investment” to increase children’s human capital (for either altruistic or selfish reasons) and do not view market alternatives as highly effective substitutes for their own time.<sup>108</sup>

College-educated mothers are more “efficient” in their parental time investments by tailoring their specific activities to a child’s developmental stage.<sup>109</sup> Along a developmental gradient, college-educated mothers

shift the composition of their time in ways that specifically promote children’s development at different developmental stages. The education gradient in basic care and play is greatest when the children are infants and toddlers (ages 0 to 2), precisely when children most require parents’ time on such basic activities as bathing and feeding and precisely when parent-child play is most developmentally appropriate. The education gradient for teaching is greatest when the children are preschool age (ages 3 to

**There are few studies on time use among parents or children in low and middle income countries. One study shows that parents’ migration to cities results in more child involvement in household tasks as well as farm work in rural households.**

5), precisely when time spent in learning activities (such as reading and problem solving) best prepare children for school. Conversely, the education gradient in management is greatest when children are between the ages of 6 and 13—precisely when parental management is developmentally appropriate.

The results were significant in the comparison between mothers with a US college education and those with only a high school education; the differences between mothers with some college and those with only a high school education were positive but were seldom statistically significant.<sup>110</sup> This pattern suggests that the developmental gradient, with the educational gradient, may be particularly pronounced among highly economically advantaged mothers.

For total childcare time, the educational gradient is most apparent in households with the youngest children.<sup>111</sup> College-educated mothers, more than their less educated counterparts, may have learned that parental investments in early childhood are key ingredients in children’s long-run success.<sup>112</sup>

But there are few studies on time use among parents or children in low and middle income countries. One study shows that parents’ migration to cities results in more child involvement in household tasks as well as farm work in rural households.<sup>113</sup> And adolescents in post-industrial East Asian countries had their time spent on household and wage labour decline as a result of industrialization, spending the freed time on schoolwork.<sup>114</sup>

US research on the “summer setback,” the loss in skills or knowledge, illustrates the importance of how parents orchestrate children’s time use. Reading and math scores declined over the summer among children of varying socioeconomic levels.<sup>115</sup> Of the kindergarten learning rate, the summer learning rate and the first





grade learning rate, the summer learning rate was the lowest, likely a function of different family and neighbourhood experiences during the summer.<sup>116</sup> And over the summer, first grade children from the bottom of the income distribution engage in fewer dance and music activities, team and individual sports, swimming lessons and scouting than their higher socioeconomic status counterparts. In contrast, low socioeconomic status children watch twice as much television each week as high socioeconomic status children in the summer (20 hours versus 10).<sup>117</sup>

Children from economically disadvantaged families experience larger summer learning losses than more advantaged children.<sup>118</sup> But activities such as visiting museums or participating in sports lessons were not associated with summer learning. Instead, the quality of the home literacy environment—including whether the home had 50 books, daily newspapers or magazine subscriptions, as well as the amount that children read or were read to by parents or visited the library—was significantly related to children’s summer learning losses and gains.

## PARENTING STYLE MATTERS

Children’s home environment—as measured by the HOME (Home Observation Measurement of the Environment) score, which includes parental time investments—accounts for up to half of the relationship between socioeconomic status and disparities in children’s cognitive test scores.<sup>119</sup>

Parenting style, particularly mothers’ sensitivity and responsiveness, is the most important factor explaining the poorer cognitive performance of low income children relative to middle income children, accounting for 33% of the gap in language, 21% in literacy and 19% in mathematics.<sup>120</sup> The home learning environment is the second most important factor explaining income-related gaps in school readiness. It includes parents’ teaching behaviours in the home as well as their provision of learning materials and literacy activities, including books and CDs, computer access, television watching, library visits and classes. It accounts for between 16% and 21% of the gap between low and middle income children in cognitive school readiness. In contrast, differential enrolment in childcare or preschool (other than Head Start) accounts for between 4% and 6% of the cognitive gaps between low and middle income children, and differential enrolment in Head Start is associated with a 6%–9% reduction in the gap between low and middle income children. All told, what happens in the home is critical for children’s cognitive achievement.

Interactive play between children and adults may be especially beneficial for children’s verbal development.<sup>121</sup> Moreover, spending more hours in places outside school and the home appears to be associated with higher test scores compared with demographically similar children who watch more television.<sup>122</sup> High income children spent nearly 1,300 more hours in places other than home or school between birth and age 6 than their low income counterparts.<sup>123</sup>

Only a handful of studies have specifically examined how parental time with children relates to children’s cognitive test scores using large-scale time-diary surveys. They largely support the conclusion that simply increasing the amount of time that parents spend with their children is not likely to improve their child’s achievement. Instead, returns to time investments depend on the amount of cognitive stimulation that parents provide during that time.<sup>124</sup> Total parental time has a small positive effect on children’s cognitive test scores, and the effect is greater for younger children.<sup>125</sup> But maternal educational time with a child has



a direct causal effect on their children's math scores that is eight times the direct causal effect of the overall amount of maternal time with the child.<sup>126</sup>

An additional year of daily mother-child reading would increase children's reading tests score by 41% of a standard deviation.<sup>127</sup> And if the mother increases the frequency of reading to her child by one day a week during the first 10 years of the child's life, the child's reading test scores would increase by about half a standard deviation. Economically advantaged parents' increasing engagement in cognitively stimulating activities seems to reflect this understanding.

### REMOVING DEVELOPMENTAL BARRIERS

What does this global evidence on the role of family factors suggest for programmes and policies related to poverty reduction in early childhood? First, an emphasis on family mechanisms may be productive when integrated with existing programme and policy approaches in early childhood.<sup>128</sup> Experimental evidence from the US Early Head Start and Nurse-Family Partnership home visiting programmes support this point. Early Head Start takes a two-generation approach by providing child and family development services to low income mothers and children under age 3. Programme parents were more emotionally supportive and provided more learning stimulation than control parents. Programme children performed better than controls in cognitive and language development and displayed higher emotional engagement of the parent and sustained attention with play objects and less aggressive behaviour.<sup>129</sup>

The Nurse-Family Partnership—a high-quality, intensive programme of home visits by nurses starting in the third trimester of pregnancy and into the third year of life—produced positive effects across multiple dimensions including family life and child outcomes. Specifically, beneficial effects are seen in mothers' lives and parenting as well as children's cognitive development and mental health—and the effects are maintained over time.<sup>130</sup>

A meta-analysis of 88 early childhood education studies found that programmes providing parents with opportunities to practice parenting skills revealed larger effect sizes for children's cognitive skills, pre-academic skills and parental warmth and responsiveness.<sup>131</sup> The Triple P parenting programme, originated at the University of Queensland in Australia, takes a population approach to improve parenting in at-risk (often low socioeconomic status) families. This behavioural family intervention is designed to induce changes in children's problem behaviour by modifying family environments that maintain and reinforce the child's behaviour.<sup>132</sup> A recent meta-analysis examining the effectiveness on parenting finds that interventions reduced dysfunctional parenting styles and improved parental competency,<sup>133</sup> and interventions for children with multiple behaviour problems reduced disruptive behaviours.<sup>134</sup>

Similarly, evidence from low and middle income countries suggests that emphasizing cognitive stimulation (such as speaking and talking more with infants) and responsiveness to basic health and nutrition interventions from birth to age 3 is associated with positive impacts on children's early learning.<sup>135</sup> An experimental programme in Jamaica produced 20-year impacts on increased IQ and earnings, and reduced depression, anxiety and violence.<sup>136</sup>

Second, parents must be central targets of interventions to increase demand for early childhood programmes that improve children's developmental potential. Media campaigns, civil society engagement and



the diffusion of innovative approaches can all increase demand for such programmes, as with Colombia's De Cero a Siempre, Peru's Cuna Mas and Chile's Crece Contigo.<sup>137</sup>

Third, conditional cash transfer programmes and other poverty reduction approaches would benefit from continuing emphasis on parents' behaviour to support early childhood development (figure 2.1). For example, conditioning transfers on well-child visits and immunizations has improved children's nutritional status and health in early childhood in several countries.<sup>138</sup> The next phase is to condition transfers on enrolment in pre-primary education. This could increase take-up when preschool education is available—and drive increases in demand even where it is not available. Warranted in rich countries are paid leave policies, child allowances and other approaches to ensure parental investments in early childhood under conditions of poverty.<sup>139</sup>

Fourth, given the prominent role of parents' mental health in early childhood development, interventions to improve their mental health should be further developed. One recent study demonstrates the promise of this approach for a low income country. Training Pakistan's community health workers in short cognitive-behavioural therapy for their work with mothers with perinatal depression showed much less diagnosed depression when children were one year old (28% in the treatment condition and 58% in the control).<sup>140</sup>

Fifth, incentives to encourage public-private partnerships to reduce poverty could be productively targeted to families with children, particularly during early childhood. A new Indian law requires corporations with annual profits above a certain amount to contribute 2% of their profits to social causes.<sup>141</sup> Although there are many competing targets for this investment, children's issues have been prominent in the policy debate. Recent early childhood development policies such as Colombia's De Cero a Siempre emphasize the role of public-private partnerships.<sup>142</sup>

Given the potent associations of poverty in early childhood with lifelong health, learning, behavioural and economic outcomes, governments and private enterprises should invest in poverty reduction with an emphasis on early childhood development. The returns to such investments could be particularly high.<sup>143</sup>

## OPPORTUNITIES FOR THE PRIVATE SECTOR

A "family-responsible" approach can enrich both the business and the social environment of the communities where they operate.<sup>144</sup> Contrary to assumptions about administrative burdens, companies that are sensitive to family issues, with formal policies that support their employees' family obligations, can balance corporate responsibility with long-term benefits.

The business community can engage in dialogues with both government and family organizations to develop a shared understanding of work-family needs and solutions. Public-private summits on this subject are becoming more commonplace in developed countries but can be expanded as a key component of corporate responsibility approaches. Similarly, leadership in the workplace has a role in sustaining workplace cultural change. Symbolic actions, such as male CEOs taking parental leave in areas of conflicting local norms, can shift organizational barriers.<sup>145</sup> From maternity coaching that supports a successful transition back into work to confidential information systems that alert employers of their workers' specific family responsibilities, innovative work-family schemes can reduce disruptions during a child's early development.



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Family-friendly initiatives at work can have positive spillovers into family and household life.<sup>146</sup> While work can be seen as sacrifice for children rather than sacrifice of time with children in base-of-the-pyramid settings, spillover effects can enable more quality time with family—particularly perhaps if wider extended family support structures are being eroded by urbanization. At a more basic level, living wages can enable people to spend less time doing more than one job, or moonlighting.<sup>147</sup> Living wages can also help address inequality of income, which has been a significant barrier not only to prosperity but also to the quality of schools, including at the primary level.<sup>148</sup>

Successful interventions at the earliest stages of child development rely on adequate family and health care services, as well as parental employment. Linking family services to private providers can make childhood services part of an integrated network. Collaborative cross-sector work can thus better ensure that parents and their children are, as a unit, at the centre of organizational plans in communities with greater risks of poorer development outcomes. Related initiatives can strengthen organizations by stabilizing workforce development. For example, establishing co-located services—such as childcare near schools, playgrounds and general practitioner clinics—can increase opportunities for parents to recognize early development problems, as well as create play and social engagements for children and families.<sup>149</sup> Support mechanisms for parents and caregivers that are available close to home or the workplace from the pre-birth stage onward can deliver early childhood development knowledge.

Recent research on brain plasticity provides evidence that quality childcare from birth through age five is vital to tackling other poverty indicators, particularly by improving children's health.<sup>150</sup> But the gap is large between the demand for childcare from working families and the supply of quality facilities, suggesting greater opportunity for market development in that area. High turnover in some communities reduces the quality of providers and limits the industry's ability to address societal needs.<sup>151</sup> Addressing this aspect of early childhood development can act as an economic driver by enabling parents to work and to renew their skills. It also prepares children to enter primary and secondary education, where they can learn the skills to later become productive workers. In addition to funding traditional school curricula, the private sector can support before- and after-school programmes by enriching extracurricular activities. Especially in postconflict societies, these programmes can ensure children's safety while allowing parents to generate income.<sup>152</sup>

The limited purchasing power of childcare providers has particular effects on available services, which provide investment opportunities for the private sector. The industry typically uses rented property, relying on surplus space on school campuses, religious halls or residential estates.<sup>153</sup> Childcare providers may not be able to compete with more profitable ventures for such space. This reliance leaves the industry vulnerable to class-size reduction and real estate appreciation, which may result in the relocation and, in some cases, closure of childcare programmes. Because there is a general need to bring additional lenders to the childcare industry, public-private partnerships can expand the reach of existing subsidy allocations. In addition, businesses can organize training sessions for childcare operators, who may lack the financial and managerial skills to deal with the complex system of regulation in the field. Businesses can also sponsor multistakeholder platforms for childcare initiatives to share best practices.

For programmes targeting early childhood development in low to middle income communities, childcare revenue is insufficient to cover all expenses. Operators often turn to donations, but fundraising leaves little time to devote to monthly services.<sup>154</sup> Income and financial constraints for centres serving low income families require additional investments. Mainstream businesses can provide loans at lower costs with longer



repayment terms. On the corporate responsibility end, the private sector can assist in coordinating outreach efforts with the support of local nongovernmental organizations to stress the importance of accessible and affordable early development initiatives.

Access to services that nurture positive development requires not only material support but also improvements in the physical environment and educational curriculum of communities. Initiatives must be culturally sensitive and inclusive of all groups, as well as aiding the development of personal talents in addition to cognitive and physical abilities. In cooperation with multilateral development organizations, the private sector can sponsor orientation workshops and seminars for new teachers and donate basic equipment in support of early childhood education (box 2.4).

Social enterprises can engage in participatory learning, where teachers and children are partners in shaping the learning experience through five channels: a diverse, abundant supply of learning tools, sensory interfacing with materials, personal choice of materials, verbal and nonverbal communication throughout play and adult support throughout the educational process.<sup>155</sup>

Impact investing also provides an opportunity to leverage government contributions and can contribute to increased efficiency gains and innovation in the long run. Social impact bonds for early childhood development, for example, can fund preschool interventions that aim to provide quality access to disadvantaged children—an endeavour that may result in cost savings for school districts by lowering the number of remedial education programmes necessary after kindergarten.<sup>156</sup>

Microfinancing can support programmes in this area by offering separate income-generating projects related to childhood development. For instance, a microenterprise in a low income community may produce and sell handicrafts made by the women whose children are enrolled in childcare, with part of the profit to support the daycare centre.<sup>157</sup> Innovative financing can therefore address both the necessities of capital and equity (box 2.5).

#### BOX 2.4 EXPANDING ACCESS TO EDUCATION IN BRAZIL

In 2013, about 14 million low income children in Brazil were under age 6, with more than 12 million lacking access to formal daycare centres or preschools. Following a commitment to the UN-led Business Call to Action, PUPA—an educational social enterprise in Brazil—decided to scale up its model to include low income women as part of its expanding caregiving services.

PUPA uses a microfranchise network for distribution, allowing it to reach low income populations that generally do not have

access to the educational tools required for early childhood development learning. This framework allowed the company to secure an initial loan from the Inter-American Development Bank's Opportunities for the Majority in 2012.

As part of its new project, PUPA offers a certification programme to parents and caregivers in remote and low income urban areas. This training enhances the potential of entrepreneurs while providing the company with an emerging labour

force that can expand their enterprise to other communities.

The educational kits allow children up to six years to explore play, reading, music and affection in a safe school environment. The interactive learning standard presents teachers with playful activities to engage children. From infant song CDs to LEGO kits, PUPA offers a range of resources to stimulate children's cognitive development. The services are projected to improve the learning skills of 500,000 children across Brazil by 2017.<sup>158</sup>



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**FIGURE 2.1 OPPORTUNITIES FOR PRIVATE SECTOR ENGAGEMENT IN REMOVING EARLY DEVELOPMENTAL BARRIERS TO POVERTY REDUCTION**

	CSR—INTERNAL	CSR—EXTERNAL
<b>COGNITIVE STIMULATION</b>	<b>Develop ventures to increase access to stimulating activities for children</b>	
	<ul style="list-style-type: none"> <li>• Develop SMS and other mobile technology services to facilitate the circulation of short training sessions or other cognitive training activities to employees with young children on a routine basis</li> <li>• Make provision of workplace daycare programmes with appropriately trained care providers</li> <li>• Provide sufficient maternal and paternal leave to allow parents to spend time with children providing the much needed early cognitive stimulation</li> </ul>	<ul style="list-style-type: none"> <li>• Promote performance and artistic activities and scholarships for musicianship and creative arts</li> <li>• Support for “adopt-a-school” programmes at preschool levels and the promote the introduction of early cognitive control and development programmes</li> </ul>
<b>EXPOSURE TO TOXINS</b>	<b>Reduce the environmental footprint</b>	
	<ul style="list-style-type: none"> <li>• Create internal policies of minimal environmental impact</li> <li>• Promote responsible procurement across supply chains; promote recycling; minimize dust, hazards; implement responsible environmental management systems; monitor and reward internal actions</li> </ul>	<ul style="list-style-type: none"> <li>• Invest in community waste management projects and recycling; fund community innovation programme</li> <li>• Promote the extension of in-house health, safety and environment (HSE) programmes along the organization’s supply chain and within the community; incorporate HSE awareness into community programmes</li> </ul>
	<b>Increase awareness of harmful effects of self-induced toxins</b>	<b>Increase awareness of environmental issues</b>
	<ul style="list-style-type: none"> <li>• Implement HSE systems within the workplace</li> <li>• Create employee education and awareness programmes on the negative impacts of exposure to drugs and toxins</li> </ul>	<ul style="list-style-type: none"> <li>• Form business-to-business advocacy groups to convince other companies to adopt internal CSR efforts and start joint initiatives</li> </ul>
<b>LANGUAGE DEVELOPMENT</b>	<b>Provide early childhood learning development tools and promote schooling</b>	
	<ul style="list-style-type: none"> <li>• Develop SMS and other mobile technology services to facilitate the circulation of short training sessions or other language training activities to employees with young children on a routine basis</li> <li>• Provide staff literacy programmes to support parents’ (especially mothers’) and other family members’ literacy and language development</li> <li>• Support initiatives such as “take your kids to work” that expose children to more complex linguistic environments than those present in the home</li> </ul>	<ul style="list-style-type: none"> <li>• Use sufficiently qualified company members to provide school mentorship programme</li> <li>• Support and involve public-private partnerships that promote education</li> <li>• Support “adopt-a-school” or “adopt-a-library” programmes that can ensure that adequate and appropriate resources are available for teachers, community libraries and so on. Set up libraries (incl. mobile and/or e-libraries) in communities with special attention to early reading</li> </ul>
<b>MALNUTRITION</b>	<b>Develop and provide nutritious food</b>	
	<ul style="list-style-type: none"> <li>• Provide nutritionally balanced meals for employees</li> <li>• Incorporate the provision of nutritious meals for employees’ children into workplace daycare services</li> <li>• Provide workplace nutritional support for employees and their children including onsite nurses as well as health testing (for iron and vitamin deficiencies and so on)</li> <li>• Provide nutritious food for lunch from sustainable local source and daycare centres for employees’ children</li> </ul>	<ul style="list-style-type: none"> <li>• Support and promote workplace sustainable agriculture projects in local organizations, including community gardens, water tanks, fishponds and greenhouses to broaden access to nutritious foods</li> <li>• Adopt a village and internal teams to map out weak pockets of community and contribute to nutrition programmes</li> <li>• Develop and donate nutritionally enhanced crop variety seeds</li> <li>• Support and involve public-private partnerships that promote nutrition for children, parents and expecting mothers</li> </ul>
	<b>Increase awareness of value of nutrition to early childhood development</b>	
	<ul style="list-style-type: none"> <li>• Promote breastfeeding to increase immunity</li> <li>• Conduct optional employee surveys to determine nutrition attitudes, knowledge and behaviours; use survey to inform free nutritional education classes complete with job-based nutritional requirements specifying how many calories each job requires in order to avoid nutritional deficits, especially for pregnant women</li> </ul>	<ul style="list-style-type: none"> <li>• Provide free nutrition, obesity, diabetes and metabolic diseases classes</li> <li>• Create special community food programmes</li> <li>• Promote awareness campaigns for pregnant mothers</li> <li>• Support community gardens</li> </ul>
<b>STRESS REGULATION</b>	<b>Decrease stress levels at work</b>	
	<ul style="list-style-type: none"> <li>• Identify stress hazards and risks in the workplace</li> <li>• Incorporate stress hazard prevention in manager training</li> <li>• Incentivize the prevention of stress not its reduction</li> <li>• Align stress management with local values and norms</li> <li>• Help employees identify their own stressors and help reduce their impact</li> <li>• Limit the amount of overtime and establish mandatory downtime</li> <li>• Provide staff with access to wellness programmes that include stress management such as access to exercise and mental health awareness and education</li> <li>• Offer “flexi-time” working hours that allow for work-life balance</li> </ul>	<b>Increase awareness of impact of stress</b>
		<ul style="list-style-type: none"> <li>• Address the impact of stress on health (definition of stress, identification of its manifestations, description of its health implications) through annual awareness campaigns</li> <li>• Form business-to-business advocacy groups to convince other companies to adopt internal CSR efforts</li> <li>• Support programmes that promote stress management and mental health programmes; partner with public health programmes to support stress management</li> </ul>



SOCIAL ENTERPRISE	INCLUSIVE BUSINESS	MAINSTREAM BUSINESS
<b>Develop ventures to increase access to stimulating activities for children</b>		
<ul style="list-style-type: none"> <li>Identify strategies and materials to support home-based development of academic skills such as literacy or math; build mobile applications for access to such materials</li> <li>Develop and market games / tools to stimulate parents to speak with their children</li> </ul>	<ul style="list-style-type: none"> <li>Expand publishing initiatives to include primary and secondary school educational materials in the offer. Provide access to affordable high-quality educational materials and training programs to young children in low income communities through innovative business models.</li> <li>Establish low-cost learning tools ideally produced locally for local consumption, with tie-in programmes in the local schools and other institutions</li> </ul>	<ul style="list-style-type: none"> <li>Develop or provide affordable and high-quality technology and interactive tools, such as toys, aimed at helping teachers to work inside classrooms (such as board and projectors)</li> </ul>
<b>Reduce the environmental footprint</b>		
<ul style="list-style-type: none"> <li>Help develop local micro and small enterprises for toxin cleanup</li> </ul>	<ul style="list-style-type: none"> <li>Create small and medium enterprise financing strategy for local community members to establish small startups for toxin cleanup</li> <li>Promote affordable, environmentally friendly technologies, such as renewable energy, through innovative business models</li> <li>Encourage production of local goods and services that are free from toxins and harmful chemicals</li> </ul>	<ul style="list-style-type: none"> <li>Ensure the elimination of toxins, poisons and harmful chemicals from supply chains; emphasize organic and natural processes</li> <li>Reward protective actions, including whistleblowing</li> </ul>
<b>Develop waste management, sanitation and water infrastructure</b>		
<ul style="list-style-type: none"> <li>Develop toxin-free alternatives for poor rural and urban communities, for instance through clean energy, like SolarAid that provides clean lighting for those who rely on diesel and kerosene for reading</li> </ul>	<ul style="list-style-type: none"> <li>Create special programmes for low income communities offering first-time or improved access often through special pricing mechanisms (such as financing, reduced pricing and special payment)</li> <li>Conduct social marketing programmes to change behaviours of low income populations while promoting products and creating the demand of improved sanitation</li> <li>Partner with local self-organized recycling workers, to maintain a clean environment</li> <li>Develop affordable water filters, handwashing stations and easy maintenance latrines</li> </ul>	
<b>Provide better access to materials for language development</b>		
<ul style="list-style-type: none"> <li>Deliver affordable early childhood education, such as Hippocampus Learning Centres that provides before-school and after-school primary programmes to children in India</li> <li>Publish and print low-cost books (such as Pratham Books in India)</li> <li>Develop specific educational material for children in poverty</li> <li>Emphasize community-based interventions that builds on communities' human, cultural and other resources</li> </ul>	<ul style="list-style-type: none"> <li>Use IT-based learning tools. An example is telecom companies providing language and education programme tailored in local languages through low-cost SMS; it works wherever a phone is in range of a mobile network, without mobile service subscription</li> <li>Develop low-cost childhood language development products that may be used in local schools</li> </ul>	<ul style="list-style-type: none"> <li>Develop and sell educational products targeting language development</li> <li>Design jobs to provide rich language skills for parents, which also increase company effectiveness</li> <li>Engage in the history, narrative and culture of communities, such as by naming products and spaces in local languages and using product tags and translations</li> <li>Media companies can dedicate broadcasting time for teaching language development</li> </ul>
<b>Develop and provide nutritious food</b>		
<ul style="list-style-type: none"> <li>Develop a sustainable supply chain for nutritious food with sourcing from local farmers</li> <li>Expand and adapt ready-to-use therapeutic foods to new markets and areas where malnutrition is common</li> <li>Develop and facilitate weekly bazar/farmers' market</li> <li>Develop community garden plots on empty property lots to grow agricultural products yet also to use land that might otherwise devalue neighbouring property</li> </ul>	<ul style="list-style-type: none"> <li>Expand nutritional supplement programmes (such as micronutrient powders and home-fortification)</li> <li>Source ingredients from fair trade enterprises at the base of the pyramid</li> <li>Create nutritious food products for malnourished children, such as Danone's fortified Shokti Doi yogurt in Bangladesh</li> <li>Sell fortified food products to lower income customers. An example is Reybanpac in Ecuador that provides affordable high-protein dairy drinks and whey-based fortified yogurt to low income infants with milk purchased from smallholder farmers. The product is fortified with whey, vitamins and minerals that contribute to brain development</li> </ul>	<ul style="list-style-type: none"> <li>Research, develop and distribute nutrient rich foodstuffs and seed varieties</li> <li>Invest in agricultural technologies to improve productivity</li> <li>Create nutritious food products for malnourished children, such as Nutriset's Plumpy'Nut paste, aimed at reducing malnutrition</li> <li>Source and develop products based on the local produce, such as converting corn to a snack that can have a longer shelf life and be distributed at schools</li> <li>Develop and sell nutritionally enhanced crop variety seeds</li> </ul>
<ul style="list-style-type: none"> <li>Develop stress identification, prevention and treatment programmes for sale to companies</li> <li>Develop sensory toys and activities to help prevent and reduce stress (dance, music, relaxation, storytelling)</li> </ul>	<ul style="list-style-type: none"> <li>Engage in the hiring and recruitment of long-term unemployed workers who might otherwise be subjected to prolonged stress hardships</li> </ul>	<ul style="list-style-type: none"> <li>Provide decent wages and enhanced job security that reduces stress and enhances skill development</li> </ul>



## 2. EARLY DEVELOPMENTAL BARRIERS AND OPPORTUNITIES

### BOX 2.5 PUBLIC-PRIVATE PARTNERSHIPS FOR EARLY CHILDHOOD CARE

Based in Europe, Smurfit Kappa is a paper-based packing company that operates worldwide. One of its corporate responsibilities in its Colombia operations is early childhood development. Recognizing that local authorities lacked the knowhow and funding to support working parents at the critical stage of childhood development, Smurfit Kappa established El Caracoli in 2011.

The centre is in Yumbo, an industrial city near the company's main production plant. Proximity presents a secure and familiar environment. The centre includes healthcare coverage for children up to age 5 and helps prepare them for formal educa-

tion. With qualified caregivers and diverse teaching material, the centre provides a receptive educational environment. In addition, part of El Caracoli involves the participation of families and training of caregivers to help increase sensitivity to basic care and early education.

The initiative is part of a private-public partnership with a presidential programme that focuses on the importance of early childhood development to future national gains. By aligning with public initiatives, businesses like Smurfit Kappa become stakeholders in the social and economic improvement of their surrounding local communities.<sup>159</sup>

#### Notes

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- 2 Hackman and Farah 2009; Hackman, Farah and Meany 2010; Lipina and Colombo 2009.
- 3 Bradley and Corwyn 2002, 2005.
- 4 Hackman, Farah and Meany 2010.
- 5 Murgatroyd and others 2009.
- 6 Mueller and Bale 2008.
- 7 McGowan and others 2009.
- 8 Oberlander and others 2008.
- 9 Essex and others 2013.
- 10 Hackman, Farah and Meany 2010.
- 11 Lipina and Posner 2012.
- 12 Westerman and others 2007.
- 13 Knudsen and others 2006; Hackman and Farah 2009; Peretz and Zattore 2005.
- 14 Johnson 2005.
- 15 Pascalis and others 2005.
- 16 D'Angiulli, Lipina and Olesinska 2012.
- 17 Antonov-Schlorke and others 2011.
- 18 Adler and Newman 2002.
- 19 Hubbs-Tait and others 2008.
- 20 Dunlap and others 2010; Storr, Chen and Anthony 2004; Ompad and others 2012; Abeldano and others 2013; Holmila, Raitasao and Kosola 2013; Macdonald and Marsh 2002; Farmer 2012.
- 21 Irner 2012.
- 22 Schroder and others 2004.
- 23 Bennet, Bendersky and Lewis 2008.
- 24 Roussotte and others 2012.
- 25 Fried, Watkinson and Grav 2003.
- 26 Barros and others 2011.
- 27 Cupul-Uicab and others 2011.
- 28 Grandjean and Landrigan 2006, 2014.
- 29 Choi 1989.
- 30 Hubbs-Tait and others 2005; Mendola and others 2002; Ornoy 2003; Wasserman, C.R., and others 1998; Wasserman, G.A., and others 2001; Wilkinson 1999.
- 31 Ornoy 2003.
- 32 Wasserman, G.A., and others 2001.
- 33 Winders Davis and others 2004.
- 34 Canfield and others 2003.
- 35 Grandjean and Landrigan 2006.
- 36 Trasande, Landrigan and Schechter 2005.
- 37 Tang and others 2014.
- 38 Lupien and others 2009.
- 39 Evans, Dongping and Whipple 2013; Bradley and Corwyn 2002.
- 40 Karatsoreos and McEwen 2013; Shonkoff and others 2012.
- 41 Shonkoff and others 2012.
- 42 Brody and others 2002.
- 43 Blair and others 2011.
- 44 Fernald and Gunnar 2009.
- 45 Joëls and Baram 2009.
- 46 Wismar Fries and others 2005.
- 47 Feder, Nestler and Charney 2009.
- 48 Evans and Fuller-Rowell 2013; Luthar, Sawyer and Brown 2006.
- 49 Sperber and Hirschfeld 2004.
- 50 Hackman and Farah 2009; Lipina and Colombo 2009; Hackman, Farah and Meany 2010; Lipina and Posner 2012.
- 51 Karoly, Kilburn and Cannon 2005; Barnett 2011; Ramey and Ramey 2003.
- 52 Lipina and Colombo 2009.
- 53 Barnett 2011.
- 54 Noble and others 2006.
- 55 Raizada and others 2008.
- 56 Sheridan and others 2013; Sheridan and others 2012.
- 57 Rao and others 2010.
- 58 Lawson and others 2013.
- 59 Jednoróg and others 2012.
- 60 Posner and Rothbart 2007.
- 61 Lipina and Colombo 2009; Posner and Rothbart 2007.
- 62 Walker and others 2007.
- 63 Duncan, Kalil and Ziol-Guest 2008; Duncan, Ziol-Guest and Kalil 2010.
- 64 Duncan, Morris and Rodrigues 2011.
- 65 Cunha and others 2005.





- 66 Carneiro and Heckman 2003; Goodman and Gregg 2010.
- 67 Waldfogel and Washbrook 2011a.
- 68 Waldfogel and Washbrook 2011b.
- 69 Waldfogel and Washbrook 2011a.
- 70 Corak, Curtis and Phipps 2011.
- 71 Bradbury and others 2012.
- 72 Duncan and Magnuson 2005.
- 73 Chavan, Yoshikawa and Bahadur 2013; UNESCO 2012.
- 74 Becker 1981.
- 75 Carneiro and Heckman 2003.
- 76 Yeung, Linver and Brooks-Gunn 2002.
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- 79 Lundberg and Pollak 1996; Lundberg, Pollak and Wales 1997; Thomas 1994.
- 80 Case and Deaton 1998.
- 81 Quisumbing and Maluccio 2000.
- 82 Attanasio and Mesnard 2006.
- 83 Schultz 2002.
- 84 Chase-Lansdale and Pittman 2002; McLoyd 1990; McLoyd and others 1994.
- 85 Yeung, Linver and Brooks-Gunn 2002.
- 86 Goodman and Gregg 2010; Melhuish 2010.
- 87 Harkness and Super 1995; LeVine 1988.
- 88 Anker 2013; Blair and Raver 2012; Davidov and Grusec 2006; Tamis-LeMonda, Bornstein and Baumwell 2001.
- 89 Gershoff and others 2007.
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- 91 Greenfield 2009.
- 92 Bradley and Corwyn 2005.
- 93 UNICEF 2012.
- 94 Yoshikawa, Aber and Beardslee 2012.
- 95 McLoyd 1990.
- 96 Simons and others 1999.
- 97 Zahn-Waxler, Duggal and Gruber 2002.
- 98 Conger and Donnellan 2007.
- 99 Paxson and Waldfogel 2003.
- 100 Lupien and others 2001.
- 101 Blair and others 2011.
- 102 Fernald and Gunnar 2009.
- 103 Evans and Garthwaite 2013.
- 104 Price 2008; Waldfogel and Washbrook 201a, 2011b.
- 105 Lareau 2003.
- 106 Guryan, Hurst and Kearney 2008; Hill and Stafford 1974; Sayer, Gauthier and Furstenberg 2004.
- 107 Guryan, Hurst and Kearney 2008.
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- 110 Kalil, Ryan and Corey 2012.
- 111 Kalil, Ryan and Corey 2012.
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- 113 Chang, Dong and MacPhail 2011.
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- 115 Downey, von Hippel and Broh 2004.
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- 117 Burkam and others 2004.
- 118 Chin and Phillips 2004.
- 119 Klebanov and others 1998; Smith, Brooks-Gunn and Klebanov 1997.
- 120 Waldfogel and Washbrook 2011a.
- 121 Dickinson and Tabors 2001.
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- 124 Booth and others 2002; Hsin 2009; Huston and Aronson 2005; Price 2010.
- 125 Villena-Rodán and Ríos-Aguilar 2011.
- 126 Villena-Rodán and Ríos-Aguilar 2011.
- 127 Price 2010.
- 128 Chavan, Yoshikawa and Bahadur 2013.
- 129 Love and others 2005.
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- 131 Grindal and others 2014.
- 132 Sanders and others 1999.
- 133 de Graaf and others 2008a.
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- 138 Attanasio and others 2005; Fernald, Gertler and Neufeld 2008; Macours, Schady and Vakis 2012.
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### **3. HEALTH BARRIERS AND OPPORTUNITIES**



Poor health is closely linked to lower socioeconomic status and other forms of social marginalization. Income-poor and marginalized groups are highly susceptible not only to infectious diseases but also to disabilities, noncommunicable diseases and mental health problems. Prevention methods may exist but are often inaccessible to the poorest in society. Given that low income countries have the highest “burden of disease” and a high prevalence of endemic diseases, health problems can contribute to a poverty trap that impedes long-term development. The nature and variety of these problems, likely to be exacerbated by the effects of climate change, natural disasters and conflict, suggest that populations at the base of the pyramid will struggle to move up unless health interventions are better targeted to meet their needs. The interplay between changes in per capita income over time and health variables—such as infectious diseases, noncommunicable diseases, mental health and disability, poor sanitation and inadequate access to quality healthcare—poses a significant challenge for addressing poverty.

## **CURRENT STATUS OF GLOBAL HEALTH MEASURES**

Global health faces a wide range of interrelated problems. One is the increased viral mobility with more people travelling greater distances. Another is the increased mobility of health workers drawn to rich countries with a relatively lower health burden and away from poorer countries with a relatively greater health burden. A third is the impact of social inequality and absolute poverty on health and access to healthcare. Although the global health agenda clearly has relevance to all countries, its particular concern with the right to health and the equity of access means that much of its focus is on addressing the inequities and gaps in service in low and middle income countries and with marginalized and vulnerable groups. The need for healthcare among this “bottom billion” is of such a scale that it requires a concerted effort by all who have something to contribute and a redesign of the systems that purport to support the health of impoverished citizens.

Health is an asset that drives development and economic and social growth. It is thus of interest to all actors, whether in the public or private sector. No country maintains the health of its population by relying purely on public resources, and the best health systems are those that combine public and private funding and provision. The potential for private sector contributions to health in resource-poor settings deserves greater attention.

The landmark WHO Commission on Social Determinants of Health (2008) report, *Closing the Gap in a Generation: Health Equity through Action on the Social Determinants of Health*, established that health problems are much more grounded in social issues as the ultimate causes of proximate diseases, disorders and disabilities. The report also championed the idea that a society can—and should—be judged by how fairly health is distributed across the social spectrum and the extent to which protection from disadvantage is provided as a result of poor health. Four principles of action highlighted in the report are:

- Improve the conditions of daily life—the circumstances in which people are born, grow, live, work and age.
- Tackle the inequitable distribution of power, money and resources—seen as the structural drivers of the conditions of daily life, at the local, national and global levels.
- Increase resources to better measure the problems and evaluate actions taken (expanding the evidence base).



- Develop a workforce trained in the social determinants of health and raise public awareness about the social determinants of health.

Anticipating the post-2015 agenda for international development is the aspiration to Achieve Health and Well-being at All Ages.<sup>1</sup> The report recommends, “Universal health coverage, at every stage of life, is to be achieved by strengthening primary health services and by promoting the intersectoral nature of health and well-being.” Reproductive health and mental health are areas of particular focus. The idea is that all people should receive quality services without financial barriers that prohibit access for the poor. The report recommends that “countries implement policies to create enabling social conditions that promote the health of populations and help individuals make healthy and sustainable decisions related to their daily living.” These aims are to be achieved by adopting four key principles:

- Recognize the Life Course Approach, which emphasizes that people go in and out of health and well-being across the lifespan, and that people with a range of conditions can and should be able to live well into old age.
- Adopt Universal Health Coverage with primary healthcare being the priority, moving away from narrow vertical treatment programmes focusing on single diseases and instead developing horizontal programmes mindful of the need to strengthen health systems. The diverse challenges of insufficient human resources, essential medicines and nutrition must be addressed for this to be successful.
- Act on a variety of determinants and dimensions of health should be taken through multisectoral initiatives, incorporating diverse stake holders, including government, civil society, private industry, media and academia.
- Foster equity through models of financed protection. The focus here is on protecting poor and socioeconomically disadvantaged groups, and seeking to disproportionately resource these groups in order to counter the higher healthcare costs associated with their greater disease burden.

## COMMUNICABLE DISEASES

The nature of biological phenomena as nonlinear occurrences contrasts at the most basic level with economic processes.<sup>2</sup> Theory and evidence demonstrates that infectious diseases have had systematic impacts on population dynamics. Specifically, empirical data have formed two key aspects of the epidemiology literature. First, infectious diseases are the leading contributors to mortality among the world’s poor. Likewise, extreme poverty is found disproportionately in areas exhibiting high rates of infectious disease. Second, good health may serve as an economic multiplier; since economic activity requires human capital. Infection compromises basic biological processes, and therefore the physical and cognitive activity required by an increasingly human-resource-driven global economy. The fact that humans, as direct biological hosts and vectors, sustain the survival and transmission of pathogens means that poor health is a barrier to poverty reduction.

HIV/AIDS, tuberculosis, malaria, measles, pertussis and diarrhoeal diseases, among other pathogens, cause substantial morbidity and mortality. Macroparasites like parasitic worms, while displaying little outward signs of infection, may obstruct cognitive development and nutrition uptake. Because individuals can be infected multiple times over the course of their lives, these infections are a constant threat to poor, and especially tropical, communities. Using a general one-disease susceptible-infected-susceptible (SIS) model,



Bonds and others illustrate that the prevalence of infectious diseases falls as per capita income rises, while per capita income falls as disease prevalence rises.<sup>3</sup> Furthermore, if labour productivity is sufficiently low, initial health conditions lead to low income and high rates of disease. By contrast, if labour productivity is sufficiently high, income is higher and the disease burden lower.

Conceptually, disease prevalence can be interpreted as a determinant of the income to both protect individuals from diseases and remove them from poverty. Infectious disease prevents children from acquiring skills, and adults from participating in the labour force. Without income, they are susceptible to reinfection, as higher income would otherwise generally afford better nutrition and sanitary conditions. Through their SIS model, Bonds and others establish that two mechanisms can help a society break out of the poverty trap: either there must be direct change in income or disease; or indirectly through systemic factors such as increased labour productivity which is determined by education, infrastructure and technology, among other factors.<sup>4</sup> Again, the effect of economic feedback is that without income to boost systemic factors, and thus influence the endogenous variables, the poverty trap remains. Epidemiological evidence is consistent with these theoretical forces.

To different degrees, both the effects of income on health, and of health on income, are important. Infectious diseases contribute to two-thirds of Sub-Saharan African deaths, in a region that also suffers from chronic poverty.<sup>5</sup> Altering the feedback loop between the two may thus generate diverging trajectories producing economic growth and social welfare growth. While future economic welfare is certainly influenced by local conditions, the status quo is witness to the combined effects of poor health and poverty, which have generated self-perpetuating patterns of underdevelopment.

## **NONCOMMUNICABLE DISEASES**

Noncommunicable diseases (NCDs) and disabilities are on the rise across the developing world. In 2008, 80% of all NCD-related deaths occurred in low and middle income countries.<sup>6</sup> The four main NCDs—cardiovascular diseases, diabetes, cancers and chronic respiratory diseases—represent a significant global challenge to socioeconomic development. In fact, the World Economic Forum ranked NCDs as the fourth greatest global risk to growth in 2009, behind collapses in asset prices and spikes in oil and gas prices.<sup>7</sup> Yet, a gap remains in providing development support in this area. NCDs claim the lives of a third of the poorest two quintiles, acting as a poverty trap for families who must face the financial ramifications of caring and supporting a member with a long-term disease and disability, as well as premature death.

**The chronic nature of NCDs may lead to long-term ailments that requires more frequent intervention and support in areas of lower geographic accessibility and higher transport costs.**

Without balanced investments for healthy development, low income countries will struggle to manage preventable death and disability, particularly strokes and heart attacks. The comparatively young populations of developing countries carry the risks associated with unhealthy cities, namely childhood undernutrition.<sup>8</sup> NCD prevention methods that begin early in the life-course can considerably reduce risky health behaviours and minimize pressure on poorly resourced health systems, allowing the sector to strengthen over time. Similarly, targeting mental health may increase productivity within the labour market.



Since data show that NCDs and mental health problems are rising in the middle years of the lifecycle, the demographic component presents a window of opportunity to expand the gains in educational investments and labour productivity made in some middle income countries.

The chronic nature of NCDs may lead to long-term ailments that requires more frequent intervention and support in areas of lower geographic accessibility and higher transport costs. Higher opportunity costs for patients place heavy demands on the household and may prevent children from completing school and adults from seeking more attractive work opportunities. NCDs, as well as mental health disorders and disabilities, generally reduce the finances available to families who have members caring for unwell or disabled members. In a 2000 survey of low income Indian households, 34% of income was spent on diabetes care.<sup>9</sup> Moreover, costs in low income countries are more likely to fall on individuals, reducing incentives for savings and thus possibly diminishing investments that could help economic growth. Between 2005 and 2015, China will lose an estimated \$550 billion from lost worker productivity due to NCDs.<sup>10</sup>

NCDs place a double burden on low income countries, where infectious disease and maternal mortality compound risk factors. For example, a family residing in an urban slum may already face undernutrition, and emerge into a state where they can afford only low-quality foods that are low in nutritious value but high in calorie content. This paradoxical “obesity of poverty” depends on the price and availability of food.<sup>11</sup> Interestingly, higher levels of urbanization and market integration, including foreign direct investment and trade flows, are found to correlate with higher NCD burdens.<sup>12</sup> Thus the private sector profoundly influences the features of globalization that are rapidly changing the lives of low and middle income populations. Tobacco is a special case that falls within this category, as the percentage of daily smokers in the lowest income groups surpasses those of their counterparts in high income countries.<sup>13</sup> This is driving millions of poor people to premature illness, with particularly high opportunity costs for poorer households. The concentration of such risk factors presents a cumulative danger for children who already suffer from social disadvantages.

## BARRIERS TO QUALITY CONTROL AND PREVENTION

Health system deficiencies and socioeconomic inequities predispose, precipitate or perpetuate the health problems that vulnerable individuals and populations experience—and these are the major barriers to achieving health for all.<sup>14</sup> Overall there has been progress in the health-related Millennium Development Goals (MDGs): reducing child (MDG 4) and maternal (MDG 5) mortality and reducing the incidence of HIV/AIDS, tuberculosis and malaria (MDG 6). Also critical for improving health are the MDGs related to the building blocks of health and well-being, such as reducing hunger (MDG 1), providing primary education (MDG 2) and empowering women (MDG 3).

The progress has not been uniformly good, however, and those easier to reach have understandably been the greatest beneficiaries of improvements in health, while those marginalized by society have benefited least. There must be greater emphasis on strengthening health systems, not just to increase the numbers served but also to reach the hard-to-reach.<sup>15</sup> Some consideration of the risks associated with private sector involvement seems relevant here. The major barriers for accessing health services in low income countries are availability, geographic accessibility, acceptability and affordability.



### **Accessibility and availability**

An estimated 1 billion people do not have adequate access to quality healthcare.<sup>16</sup> Services are often far from potential service users. This distance and dispersion require service users to pay substantial costs of transport, so there are real opportunity costs in both time and money. On availability, health workers, drugs and equipment are generally insufficient to meet demands, and there can be long waiting times to see staff who may be demotivated by a lack of resources, poor professional support or few opportunities for their own advancement.<sup>17</sup> Additional access barriers include unstaffed health clinics and “under the counter fees,” which result in those able to pay being prioritized over those with greater need.

These challenges are compounded by outbreaks of deadly diseases like Ebola and SARS, which necessitate containment and rapid delivery of medicines. Although advances in drug synthesis and technology now offer comparatively quicker treatment, their results are not readily available to populations at the base of the pyramid. Life expectancy between the highest and lowest income country differs by more than 40 years.<sup>18</sup> The accessibility component of the poverty trap has also had additional negative effects on disadvantaged groups. The poor health of mothers and inadequate access to quality obstetric care, for example, affect infant and child mortality and morbidity. The Millennium Development Goals offer a way for contextualizing health within poverty reduction. For instance, reducing infections among children improves nutrition, which in turn bolsters cognitive functions, improving educational outcomes. Similarly, improving access to clean water decreases the chances of children and teachers getting ill and keeps them in school, reducing the likelihood of productivity shocks.

Resources at many levels of governance tend to be directed towards epidemic conditions at the expense of endemic diseases. Neglected tropical diseases (NTDs), while prevalent among the poorest and most marginalized populations, attract few resources.<sup>19</sup> More than 70% of countries where NTDs are prevalent are low and lower middle income; the former category is affected by at least five NTDs.<sup>20</sup> Poverty, as well as other social determinants, interacts to establish local morbidity patterns that produce public welfare problems. For instance, intestinal worms usually enter the body through food or skin that has come into contact with contaminated soil, making children especially vulnerable. Because this category of NTDs impairs intellectual and cognitive development, it has long-term implications for economic growth. Hookworm, one of the most common NTDs with approximately 740 million cases, diminishes the quality of life and is estimated to cause a 40% reduction in future wages.<sup>21</sup>

### **Acceptability and affordability**

Given multi-intervention approaches for disease control, more research is needed on the acceptability of drug regimens and new medical approaches—and more effective systems for delivering treatments and promoting health. Acceptability refers to both the characteristics of the health services offered and the attitudes and expectation of the potential service users; affordability reflects the reality that providing quality healthcare to poor and marginalized groups is often too expensive to rely on public taxes or insurance as the only source of funding. People in regions with high rates of endemic diseases frequently have multiple infections. Moreover, there are varying social frameworks to decision-making that make treatment a complex process in some communities. Individuals may have both a communicable disease and an NCD, necessitating a combination of drugs and other treatments for which the costs can be very high. Moreover, communities may have diverging attitudes towards side effects, or they may not accept services that





counter their cultural beliefs.<sup>22</sup> There may likewise be a fear of being in the same location as people with stigmatized conditions.

As with any treatment regime, the inability to adhere to prescriptions risks effectiveness and, in the long run, compromises disease prevention and poverty reduction. In addition, research needs to continue on the supply and distribution of drugs and other treatments. Gaps in this chain may, for instance, lead to the illegal circulation of drugs, which can elude high-priority areas and, unregulated, have the potential to spur drug-resistant strains.<sup>23</sup> Similarly, the proliferation of counterfeit drugs can influence the willingness of populations to trust disease control agencies.

The attitudes of target populations need to be understood in order to combat diseases that have the potential to be eliminated.<sup>24</sup> The health sectors in many postcolonial settings continue to function within a hierarchical structure that privileges the knowledge of biomedical personnel.<sup>25</sup> This legacy has greatly influenced engagement among different actors at varying levels of governance. The way healthcare is supplied in many low income contexts mimics models of healthcare delivery developed in high income contexts. The solution to these barriers is not to fix one and then another, but to redesign the approach using a systems perspective that recognizes the reality and complexity of the problems—such as a limited human resources pool, unequal distribution of resources, hugely varying population densities and inaccessible terrain. Improving and strengthening systems requires more than increasing the quantity of care delivered. Continuing to deliver care in ways that are not optimal for the context is not a solution—instead, we need to reimagine a better system of healthcare delivery.

From volunteer workers to traditional specialists, the contributions of a range of health professionals have the capacity to enhance behavioural, familial and community-based interventions. Alternative cadres of health workers (to those conventionally trained in high income countries) may be developed and be more likely to remain working within the health sector in their own country. However, the lack of recognition, or limited career opportunities, can inhibit the translation of complex health policy into local practices. Prevention activities and outreach programmes, as well as the integration of disease control and routine primary care, need to be analysed to gauge community receptiveness. The viability of cross-sector approaches in different settings depends on the alignment of interests and the commitment of varying actors to disease control, rehabilitation and health promotion.

Certainly, new areas of research, strategy and partnerships take time. However, both public health concerns and poverty reduction require resource allocation that is geared towards long-term outcomes. This requires us to let go of the idea that there is one right way of doing it, or that the optimal way should look something like “our way.” This makes it difficult for planners, managers, clinicians and patients, because it requires moving away from a currently unobtainable but familiar idea of what a health system should look like and embracing unfamiliar ideas that may challenge accepted norms.

## LINKAGES BETWEEN DISEASE AND POVERTY

The linkages between disease and poverty extend beyond individuals and households; the effects of untreated, continuing infection propel a cycle of poverty that feeds into the high costs of healthcare. Vulnerable communities are already at risk since they generally live in poor, ill-served areas.

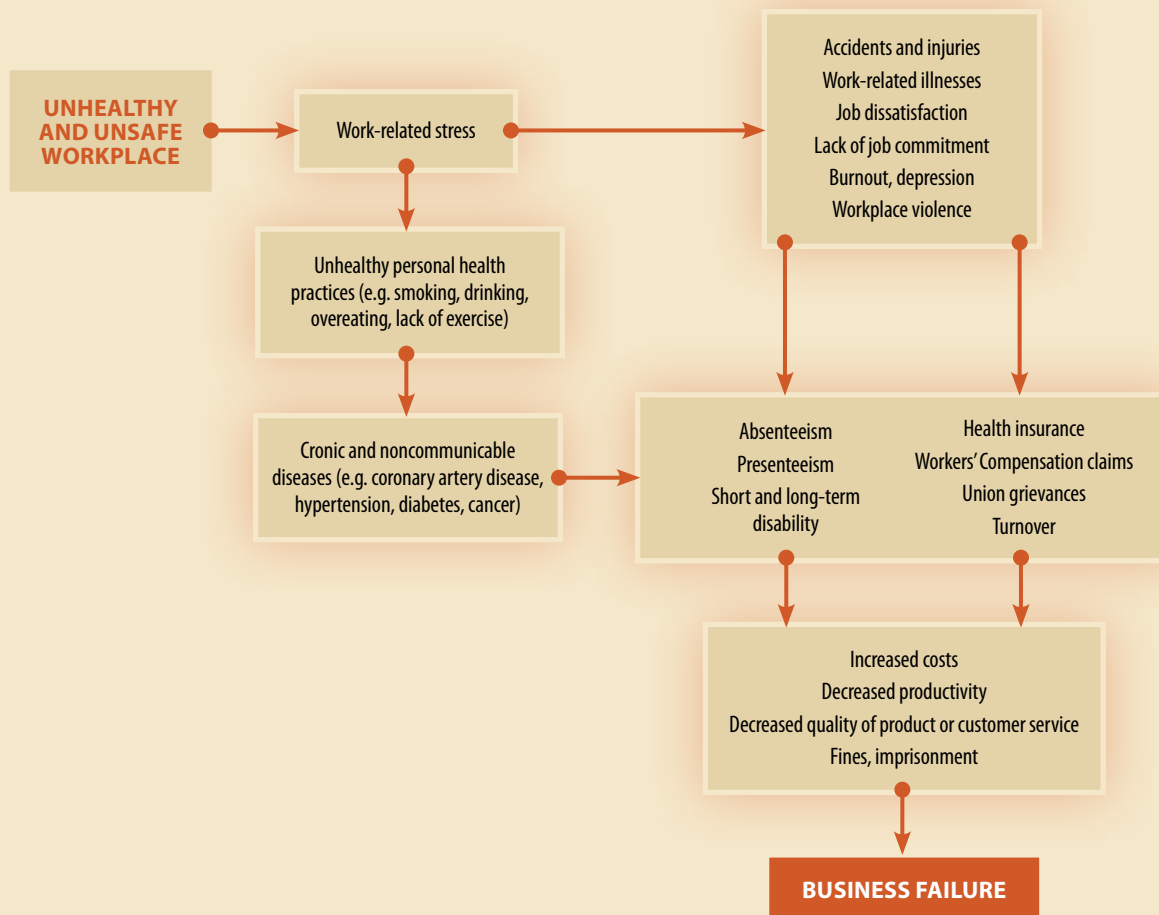


### 3. HEALTH BARRIERS AND OPPORTUNITIES

It is worth pondering the business case for investing in a healthy workforce in low income countries, because the perception that this sort of investment is too expensive or not necessary (perhaps because of less stringent regulation) may discourage companies from investing in their workers' health. A healthier workforce is more productive. Recent tragedies, such as the collapse of a building in Dhaka, Bangladesh, which killed more than 1,000 textile workers and injured many more, added to concerns about worker exploitation in sweat-shop conditions. A move from a more combative worker's-right-to-health perspective to more inclusive public-health-for-the community perspective is desirable.<sup>26</sup>

There is a clear business case for having healthy workers (figure 3.1). Unhealthy or unsafe workplaces can cause stress and are associated with greater accidents and injuries, reduced organizational commitment, increased job dissatisfaction, depression and burnout—which can lead to lower productivity, absentee-

FIGURE 3.1 WHO'S BUSINESS CASE FOR HEALTH



Source: Burton 2010.



ism, disability, insurance claims, union action and high turnover rates. This in turn increases costs and may reduce both the quantity and quality of production (chapter 4). Unhealthy workplaces may also result in chronic and noncommunicable diseases that have similar effects. Initiatives in occupational health are posing a much more positive vision of work and health in low income countries. Competitiveness in the world economy requires a healthy workforce, and the workplace can be a major driver for achieving this.

In a survey of street children conducted by the *Infectious Diseases of Poverty Journal*, almost all of the participants had a health-related incident in their families, either natural or workplace-related. Events ranging from death to debilitating conditions had forced people to work on the streets. While some of the street children developed a fear of exposure to illness, others developed a carefree attitude. Regardless, both circumstances severely inhibit future engagement with educational and occupational opportunities. The illness of family members has profound financial ramifications for children, as they may be forced to take on an income-generating role. In many poor contexts, people are continuously exposed to environmental pollution and infectious wastes as they scavenge for meagre resources.<sup>27</sup> The cyclical relationship between poverty and disease creates a life of obligations rather than choices, and these obligations often escalate with time.

Although the links between gender and economic variables are poorly understood in the context of health, gender does have a major impact on transmission and prevention. Women are integral to the successful introduction and acceptability of new interventions. As child bearers, the well-being of women also impacts the distribution of disease across generations, as well as patterns of care. Studies clearly indicate that rates of infections are correlated with social status, drawing attention to significant disparities in access to quality treatment.<sup>28</sup> With these inequalities in mind, it is thus important to disaggregate data so as to understand and focus attention on the effects of sex and gender on disease and poverty reduction.

## MOVING PAST THE STATUS QUO

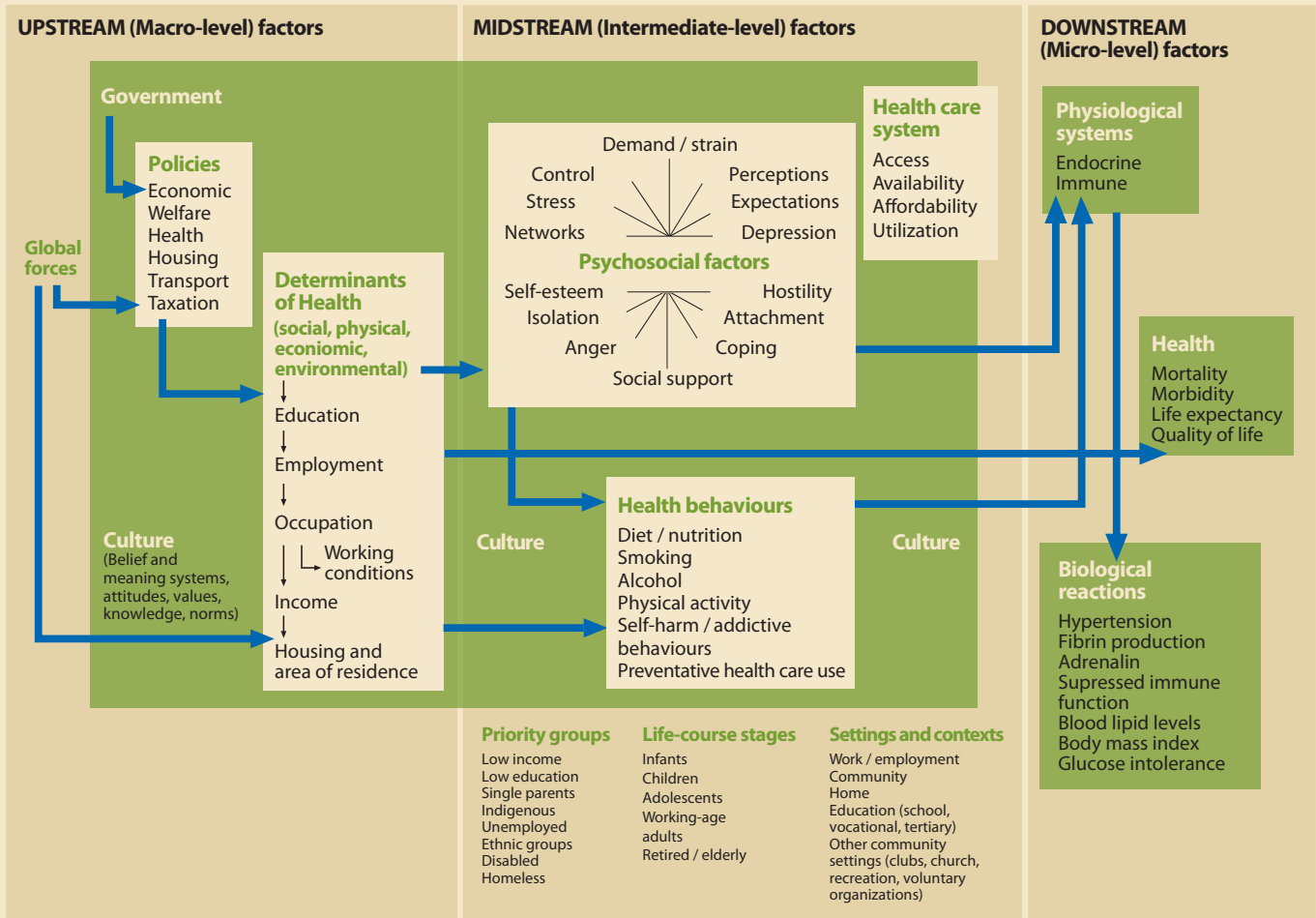
Encouraging the engagement of the private sector with the health of the bottom billion is not simply a matter of doing more, or spreading it further. It is a matter of doing things differently, and particularly adopting a systems-perspective rather than attempting to break down one barrier at a time, as already noted. The development of new health technologies can have profound effects both at the individual level and at the systems level. New technologies can change individuals' capability to cope with tasks they could not have competently managed before. But technology also has the potential to be transformative—to change how healthcare is provided and how individuals can contribute to a new type of system.

Change in healthcare will have to go along with change in the multitude of factors that interact with healthcare, and these include change in society, and the positions of individuals and professions within society. Health can be characterized as having upstream-midstream-downstream determinants, and each of these are strongly influenced by a plethora of social factors (figure 3.2).



### 3. HEALTH BARRIERS AND OPPORTUNITIES

FIGURE 3.2 UPSTREAM, MIDSTREAM AND DOWNSTREAM DETERMINANTS OF HEALTH REQUIRING MULTISECTORAL ACTION



Source: Turrell 1999.



Advances in various health-related disciplines help contribute to these types of changes and development processes now needed because they can contribute to the three interlocking components required:<sup>29</sup>

- Knowledge of what needs to be done (the specific content of health-related interventions).
- Knowledge of how it should be done (individual and organizational behavioural processes most likely be effective).
- Knowledge of where interventions need to be modified to be effective (taking into account contextual factors such as poverty, culture, climate and how these affect the capacity for behaviour change).<sup>30</sup>

The weak integration of different types of knowledge across different sectors and the complexities of health systems has for decades been the greatest barrier, not just to private sector engagement but also to the effective capacity building of the sector as a whole. These perennial challenges now combine with new opportunities and a new ethos, positioning the private sector much more advantageously than ever before.

## OPPORTUNITIES FOR THE PRIVATE SECTOR

The contributions of the private sector to public health are significant. Compared with their public sector counterparts, private sector providers (PSPs) in developing countries may be open for longer hours and nearer to communities in sparsely populated regions.<sup>31</sup> Moreover, they may offer considerably shorter waiting periods and greater availability of both staff and medicine. As they are generally not members of prepaid health schemes, poorer populations often pay out of pocket for health services. But because PSPs are perceived to be more sensitive to client concerns, especially with diseases that carry social stigma, they can be seen as better alternatives.<sup>32</sup> Thus, the private sector is critical to achieving key health objectives. The perception that PSPs provide better quality care—whether true or not—can present a motivating factor for private sector mobilization.

Decision-makers across both the public and private sectors can build on the comparative advantage of PSPs. Especially in slums or densely populated pockets of informal housing, there is little infrastructure and, by extension, minimal health service. In these circumstances, the private sector becomes central to the lives of people living poverty, who incur more costs for basic services.<sup>33</sup> Businesses can use their organizational capacity and technological innovation to improve the lives of those occupying the base of the pyramid (box 3.1). All poor people are consumers, and local entrepreneurs can harness their knowledge of the actual needs of their communities to deliver low-cost services to meet existing demand. The ability of the private sector to reach both the distressed urban area and the rural village presents a unique opportunity to develop distribution links among consumers.<sup>34</sup> Building on this segment of the market should allow the private sector to keep costs low.



### **BOX 3.1 OCCUPATIONAL HEALTH SERVICES AT THE WORLD'S LARGEST SUGAR FACTORY**

Situated 270 kilometres south of Khartoum, Kenana Sugar Company lies on the fertile and well-watered plains between the Blue Nile and the White Nile. However, Kenana is not just a sugar production complex, it is a town within a large agricultural estate, where the basic needs of the staff and their dependents are met by the company.

Kenana's extensive occupational health services comprise the Kenana Referral Hospital at the production site, Kenana Health Centers in related areas, Kenana Diagnostic Center, Kenana Commercial Pharmacies, Kenana Environmental Health Promotion and Kenana Health Insurance.

Dr. Khalid Habbani, the Head of Occupational Health Services, explains that the scheme offers free health services to employees and their families. This includes each worker's parents, wife (or up to four wives), sons up to 18 years old and daughters until they get married. Appropriate to the cultural setting, this range may cover 20 or more people.

The Kenana Hospital recently updated and upgraded its facilities to address the increasing number of chronic and noncommunicable diseases, providing more advanced and sophisticated hospital services for workers and their relatives.

Kenana Environmental Health Promotion promotes a healthy Kenana town. It has participated in improving the White Nile State's environment by establishing a hydro-flume irrigation system to reduce the incidence of malaria and bilharsiasis and gain more land for agriculture.

Kenana's investing in health for the organization's strategic advantage of having healthy workers. It is also contributing to community health more broadly. Having a job with Kenana means having access to good healthcare for an extended range of family members, strengthening identity with the company and increasing the probability that employees will think twice before moving to another company.<sup>35</sup>

It may also be argued that the private sector has the incentive to focus its efforts on more cost-effective programmes that could be used more extensively by the base of the pyramid. Poorer populations tend to visit PSPs for diagnosis and treatment of communicable diseases that contribute most to local disease burden, including sexually transmitted infections.<sup>36</sup> Increasing private involvement in the financing of related goods and services can potentially correct for other market deficiencies. Selective user fees, for example, may deter overutilization of drugs and signal to consumers the sensitivity of types of care.<sup>37</sup> The drugs must, however, be made affordable in the first place. Similarly, private sector successes in one area can open traditionally public services to competition. For logistics, the private sector is often better equipped to deal with transportation and storage, which can assist public procurement in the health sector.<sup>38</sup>

Building on the emerging ecosystem of public-private partnerships, the private sector must engage local partners to ensure that programmes are contextualized to local conditions. Frameworks can be improved to build collective action platforms that spur community investment programmes. Beyond philanthropic activities, there is the potential for the private sector to be instrumental in supporting local capacity building. Investment in health infrastructure is vital to spurring innovative products that may otherwise not be developed in low income areas. Partnerships with the private sector were responsible for more than 40% of global health products registered between 2000 and 2010.<sup>39</sup> By improving clinical practices and scientific expertise in regions such as Sub-Saharan Africa, research and development efforts can, in the long run, save lives.

In many low income areas, most healthcare facilities are poorly resourced. Poor infrastructure is a major impediment to poverty reduction, as it inhibits national strategies to promote health, rehabilitation and



disease prevention.<sup>40</sup> So, the private sector can assist in the rehabilitation of buildings and maintenance of medical equipment in areas of its operation. For instance, commercial farms in Uganda have been involved in disease control at the municipal level and, at times, have been encouraged by the government to expand the scope of their involvement.<sup>41</sup> Within the context of the MDGs, the private sector can consult with governments to map out a sequence for improving basic infrastructure over an operational timeframe. Businesses can engage in cross-sector dialogue to inform host governments of the scale and type of investments needed to sustain social gains and economic growth.<sup>42</sup> And for businesses looking to streamline corporate philanthropy, undertaking specific activities aligned to actual investment needs in a country can pave the way for further government investment.

A fundamental problem in the health sectors of low to middle income countries is the affordability and accessibility of basic services. Low salaries for practitioners lead to a shortage of qualified clinical staff and by extension, a shortage of medical drugs and devices. The result is facilities often provide lower quality services and limited coverage. Businesses in the health sector can complement government strategies by training staff and assisting in outreach programmes—two initiatives that were critical to improving vaccination and prenatal care in Mozambique during the 1990s.<sup>43</sup> Extending corporate social responsibility, private firms could be encouraged to adopt marginal cost pricing to produce a set number of products to sell to a public body at cost rather than for profit.<sup>44</sup> Following heated public debate, some pharmaceutical companies have now offered their antiretroviral drugs at much reduced prices, rather than their previous patent-protected prices. Similarly, tiered-pricing can expand the reach of new technologies and breakthroughs.

Private efforts to tackle health barriers to poverty reduction may act as economic multipliers. With little increase in expenditure, curative facilities and coverage can be improved by innovatively targeting specific indicators like improvement of formal payment methods.<sup>45</sup> For PSPs, making exemptions for poor and vulnerable members can translate to dramatic increases in demand, including people seeking earlier and thus more effective treatment. In countries where basic health services are community based, the technical expertise of large PSPs can make it possible to deliver services specific to a given population and its health characteristics. Providing well-trained staff can visibly increase utilization rates; similarly, estimating all costs involved in the production of goods and services may allow communities to more accurately plan for the costs of maintaining clinics.<sup>46</sup>

While private sector growth in developing countries can boost the quality and number of goods and services available to the poorest populations, it is also important that they do not have a “crowding out” effect by pulling qualified personnel away from public facilities.<sup>47</sup> Thus, the private sector must seek sustainable methods through which they can increase the development impact in the countries where they operate. In effect, measuring results and sharing good practices becomes crucial to making sure cross-sector efforts reach the markets that most need help.<sup>48</sup>

The private sector can leverage its competitive advantages, which often include greater efficiency, to reach new markets. Lower costs for distribution of services and more integrated delivery systems are part of the challenge to social entrepreneurship. In Namibia, the United Africa Group, a private company, partnered with the Ministry of Health and Social Services to equip officials with portable automatic teller machines, smart cards and trucks to efficiently deliver social security assistance to beneficiaries in rural areas.<sup>49</sup> The abilities to disburse payments, identify payment recipients and manage delivery systems are part of a chain to ensure that the poorest communities can cover the marginal cost of basic services.



### 3. HEALTH BARRIERS AND OPPORTUNITIES

The private sector’s influence on supply and demand, if regulated with overall social gain in mind, signals an advantage that can move towards public health goals. In areas without extensive public health services, the private sector may be able to raise coverage of existing services through social marketing, accrediting or contracting with nongovernmental organizations.<sup>50</sup> By identifying the providers that best provide treatment for priorities like malaria and tuberculosis, the private sector can mainstream information about the health-care market, allowing policy-makers to target quality and costs, as well as patterns of private sector provision that maximize capacity.

In designing interventions, the private sector needs to contextualize social barriers and identity where it needs to work with the public sector to improve access for target groups. The effective response to demand is fundamental to the delivery of essential healthcare packages. Information asymmetry is a major constraint to purchasing healthcare, and PSPs especially must be more responsive to inadequacies like poor prescribing and dispensing.<sup>51</sup> By scaling up private facilities with more comprehensive clinical services, and perhaps setting up dual-practices with the public sector, the private sector can potentially increase coverage and quality, while controlling excessive healthcare costs.<sup>52</sup> Developing strong occupational health services that reach into the communities—and markets—of employees is another way the private sector can promote better health for all, including the most vulnerable and marginalized (box 3.2).

#### BOX 3.2 DOW CHEMICAL

Dow Chemical is a big company: with annual sales of about \$60 billion, Dow employs some 52,000 people across 197 sites in 36 countries, producing some 5,000 products based on specialty chemicals, advanced materials, agrosociences and plastics.

Its approach to inclusion and health are at the cutting-edge of good workplace practices, and while Dow engages in philanthropic and corporate social responsibility initiatives, its approach to inclusion and health is seen as clearly contributing to their bottom line. Dow’s Gerard van de Ven says that “we want our workforce to reflect the markets we sell in to, and that means diversity.” Dow believes that innovation is fuelled by the differing experiences, backgrounds and perspectives that a diverse workforce

embodies. Dow also sees the success of the communities in which it works—while worthy in itself—to also be to the strategic advantage of the company, ensuring a pipeline of motivated and engaged workers.

Dow has gone to lengths to ensure that their workforce is in good health. While again this is a worthy goal in itself, it is also seen as contributing to the bottom line. The HIV/AIDS epidemic in Africa has taken and threatens millions of lives. Having a productive and reliable workforce that retainable requires that they are healthy—indeed, reliably healthy—and that they value your workplace. In South Africa, Dow faced the prospect of a workforce that was suffering ill-health, absence and low productivity, much of it arising from HIV/AIDS.

Dr. Murray Coombs, the Health Director for the Middle East and Africa, oversees the workplace HIV/AIDS programme that has resulted in lower rates of new infections for Dow employees in Africa, and zero employee deaths from the disease for five years. This programme was awarded a commendation in the Workplace/Workforce Engagement category of the 2011 Business Action on Health Awards. Dr. Coombs credits the early commitment from Dow’s top management as a critical factor in ensuring that there were few barriers in developing and launching the programme. He notes that challenges still remain: “Stigma is an issue that needs continual attention. Early detection and treatment have to be reinforced regularly,” and of course such programmes require continual and reliable funding.<sup>53</sup>





## New health technologies

Health technologies can dramatically change individual's capabilities. For instance, ultrasound scans that once required travel to centralized clinics can now be provided through sensors linked to a laptop computer operated by one person in remote locations and the image transferred for diagnosis in the clinic. Health technologies are transforming health systems. We need to think of healthcare being provided differently, not necessarily in terms of "more" or "less" or in terms of number of nurses and doctors per population but in the system itself being reconfigured and redesigned. For instance, operators of the mobile ultrasound scanning device need to be able to distinguish between the presentation of a healthy well-developing foetus and a problem of high-risk pregnancy. They may also need to know how to transmit an image from their mobile laptop to a midwife or doctor for a specialist opinion, but they do not necessarily need to be trained in the full range of obstetric diagnostic skills.

Mobile technology has the potential to play a critical role in increasing positive health behaviours in people at risk for NCDs and in reducing associated adverse events. mHealth can improve timely health data collection and transfer; allow for more efficient diagnosis and disease surveillance through strengthened health information systems; improve case-management, leading to enhanced quality of care; and improve working conditions, supervision and support of health workers, helping to address the severe shortage of skilled health workers in these contexts.<sup>54</sup>

An example of how this might be achieved is evident in an mHealth project in Sierra Leone that is a collaboration among an academic partner, a nongovernmental organization and a private technology company. The project has trained community health workers (CHWs) to use a custom designed mobile application to collect health data, monitor health indicators and encourage women to attend health clinics for antenatal care and delivery as part of a timed and targeted counselling programme that contains 7 and 11 health education messages targeted at pregnant women's and children's health, respectively (7-11/ttC). The app is an iteration of two existing field-tested, open source applications including the Grameen Foundation's MOTTECH (back end) and Dimagi's CommCare (front end). The MOTTECH Suite allows CHWs to view which households are due visits, to register pregnant women for 7-11/ttC, to make emergency referrals to their affiliated health centre, to track their own progress and to collect household data for transmission to the health facility to support clinical and managerial decision-making. The app helps expedite three major processes: the registration process, the visits and services process and the referral and counter-referral processes.

The MOTTECH Suite addresses many of the common human-resources-for-health issues of community-level health programmes. The application provides important job support by acting as a resource or job aid for alternative, informally trained cadres of health workers. It allows CHWs to better manage their tasks and the households assigned to them, facilitates the registration process for pregnant women, provides important feedback and progress monitoring and results in CHWs feeling more strongly connected to the health system. It shortens the delay for emergency referrals to an affiliated health centre, and means that CHWs no longer have to travel long distances, under the weight of paper forms, to transmit data to the health facility and to support clinical and managerial decision-making. More important, when combined with a strong supportive management system, the introduction of technology can increase CHW job satisfaction, increase supervision and contribute to CHW retention.<sup>55</sup>



### 3. HEALTH BARRIERS AND OPPORTUNITIES

**FIGURE 3.3 OPPORTUNITIES FOR PRIVATE SECTOR ENGAGEMENT IN REMOVING HEALTH BARRIERS TO POVERTY REDUCTION**

	CSR—INTERNAL	CSR—EXTERNAL
<b>ACCEPTABILITY</b>	<b>Increase awareness programmes that are adapted to local cultures</b>	
	<ul style="list-style-type: none"> <li>• Incorporate cultural dimensions into any in-house or mobile healthcare services</li> <li>• Provide education and awareness through workplace wellness programmes</li> </ul>	<ul style="list-style-type: none"> <li>• Provide education and awareness through wellness programmes, seminars and workshops at community centres, libraries and other public spaces to dispel concerns about conflicts between healthcare services and cultural traditions</li> </ul>
<b>AFFORDABILITY</b>	<b>Subsidize the cost of healthcare</b>	
	<ul style="list-style-type: none"> <li>• Create on-site primary care facility to decrease workers' downtime</li> <li>• Subsidize the cost of healthcare insurance programmes</li> <li>• Implement hosting days where healthcare specialists provide screening and testing on site to employees, thus lowering cost and increasing accessibility and availability</li> </ul>	<ul style="list-style-type: none"> <li>• Work together with the local authorities and development partners to address gaps and entry points in the system</li> <li>• Donate home care products to the local community health centres</li> <li>• Provide local health checkup days for the community</li> <li>• Create community healthcare worker programmes with local government</li> <li>• Contribute to health systems strengthening schemes, emphasizing entry points (primary care) and testing</li> </ul>
<b>AVAILABILITY</b>	<b>Directly provide or fund healthcare</b>	
	<ul style="list-style-type: none"> <li>• For multinational companies, and for those with remote national centres, utilize or develop available mobile tele-health connections</li> </ul>	<ul style="list-style-type: none"> <li>• Providing public health services to respond to a major local health issue, in coordination with local authorities and development partners</li> <li>• Support community health screening programmes</li> <li>• Support and involve public-private partnerships that promote to fund various healthcare services in local communities</li> </ul>
<b>BEHAVIOURAL PREVENTION</b>	<b>Increase awareness</b>	
	<ul style="list-style-type: none"> <li>• Provide awareness campaigns on early medical checks or a specific health condition of greatest relevance to employees</li> <li>• Provide weekly health awareness messaging in company announcements and short training courses offered during breaks or between shifts</li> <li>• Provide education and awareness through on-site wellness programmes on basic healthcare and personal hygiene habits</li> </ul>	<ul style="list-style-type: none"> <li>• Sponsor public education about health problems and treatments</li> <li>• Provide education and awareness through wellness programmes, seminars and workshops at community centres, libraries and other public spaces on basic healthcare and personal hygiene habits</li> </ul>
<b>ENVIRONMENTAL PREVENTION</b>	<b>Increase awareness</b>	
	<ul style="list-style-type: none"> <li>• Ensure best-practice environment compliance</li> <li>• Ensure that employees have the right skills to ensure environmental safety</li> </ul>	<ul style="list-style-type: none"> <li>• Promote industry-wide improved environmental practices—health, hygiene, water storage, waste management, sanitation</li> <li>• Engage in community education and awareness programmes on health and environment and support the government and NGOs working in such initiatives in the community</li> </ul>
<b>GEOGRAPHIC ACCESSIBILITY</b>	<b>Directly provide or fund healthcare</b>	
	<ul style="list-style-type: none"> <li>• Foster worker insurance programmes</li> <li>• Provide at-work healthcare services for employees (especially for large labour forces that consist primarily of low income workers) and even extend these programmes to employees' families</li> <li>• Allow employees to use company vehicles and drivers in emergency situations to access healthcare not available in the community</li> </ul>	<ul style="list-style-type: none"> <li>• Finance course for nursing at home</li> <li>• Support local testing campaigns in conjunction with public health services</li> <li>• Ensure relevant content development and develop relevant health apps for local community for community members or community health providers</li> <li>• Provide support (through philanthropic contributions or technical capacity where available) for healthcare services in communities</li> <li>• Allow healthcare professional that may be on staff to provide on-site emergency visits to employees, families and communities in which employees live</li> </ul>



SOCIAL ENTERPRISE	INCLUSIVE BUSINESS	MAINSTREAM BUSINESS
<b>Increase awareness programmes that are adapted to local cultures</b>		
	<ul style="list-style-type: none"> <li>• Incorporate education as a part of inclusive business strategy</li> <li>• Train professionals in diagnosing and treating different diseases—for example, creating awareness about diabetes</li> <li>• Businesses (hospitals or manufacturers) could incorporate health education into their programmes—for example, training and deploying local health educators to educate people about diseases and preventive health measures</li> </ul>	<ul style="list-style-type: none"> <li>• Promote education for a better acceptance of health-related products as part of marketing strategy</li> </ul>
<b>Decrease the cost of healthcare</b>		
<ul style="list-style-type: none"> <li>• Low-cost healthcare models</li> <li>• Generics</li> <li>• Access to patented drugs</li> <li>• Resource high-volume demand needs such as vaccinations, eye health or triage services, such as Aravind Eyecare in India, as well as low-volume demand needs, such as neglected diseases</li> </ul>	<ul style="list-style-type: none"> <li>• Develop affordable healthcare delivery and pharmacy models, such as Swasth in India and Farmacias Similares in Mexico</li> <li>• Hospital facilities provide low-cost care, often use subsidized or differential fees based on patient's income and institute measures to reduce costs (lean production)</li> <li>• Microinsurance or health loan schemes for the poor. Manufacture lower cost devices that are more portable (addressing accessibility and availability barriers) and easy to use by minimally trained staff</li> </ul>	<ul style="list-style-type: none"> <li>• Hospital facilities that accept public insurance or insurance targeting low income patients</li> <li>• Provide access to patents for generics</li> <li>• Deploy mobile health insurance solutions to the majority of people</li> </ul>
<b>Increase availability of healthcare</b>		
<ul style="list-style-type: none"> <li>• Mobile health connections</li> <li>• Decentralized distribution systems to increase availability in remote areas</li> <li>• Develop business models to address availability, such as Fundación Paraguay—Spectacles, that help spread access to eye glasses and medication</li> <li>• Introduce mobile information portals for poor people to access information about health matters (such as nearest health centre, types of diseases and causes, how to prevent a disease and so on)</li> </ul>	<ul style="list-style-type: none"> <li>• Target underserved poor populations</li> <li>• Develop distribution models to address availability issues—supply chains, back up and alternative product sources</li> </ul>	<ul style="list-style-type: none"> <li>• Develop affordable and high-quality business models in the healthcare ecosystem</li> </ul>
<b>Increase awareness</b>		
<ul style="list-style-type: none"> <li>• Develop information portals accessible by mobile for poor people to access information about health matters</li> <li>• Develop social business models around primary healthcare support through community healthcare workers who make home visits, such as the Avon lady model, in which community members educate and sell products to their friends in their homes</li> </ul>	<ul style="list-style-type: none"> <li>• Support hygiene and health initiatives within the supply chain</li> <li>• Conduct various activities such as awareness raising, education campaigns, brand-building and grassroots marketing to inform people about health issues. For example, water companies that provide community education on the benefits of clean water, to encourage individuals to understand the risks of nonpurified water and change behaviours accordingly</li> </ul>	
<b>Provide clean water, sanitation and energy-saving products or services</b>		
<ul style="list-style-type: none"> <li>• Commercialize interventions that improve environment—clay-based water filters, decentralized water plants (such as WaterHealth and Water Life)</li> <li>• Partner with sanitation providers</li> </ul>	<ul style="list-style-type: none"> <li>• Provide ecological toilets that do not use water while conducting a public health awareness campaign on the need for more hygienic latrines</li> <li>• Manufacture low-cost water systems that can be assembled using local materials and labour</li> <li>• Many water and sanitation examples have special programmes for low income communities offering first-time or improved access, often through special pricing mechanisms (financing, reduced pricing, special payment)</li> </ul>	
<b>Develop healthcare infrastructure</b>		
<ul style="list-style-type: none"> <li>• Develop not-for-profit health clinic in the local community</li> <li>• Develop local health technician and medical assistance programmes or other short-term intensive health certification programmes</li> <li>• Create community health worker training and related public service programmes</li> <li>• Develop more affordable and high-quality remote telemedicine and health support</li> <li>• Design products for easy transportation to or storage in remote areas</li> </ul>	<ul style="list-style-type: none"> <li>• Develop small-scale, cottage, hospitals</li> <li>• Develop more affordable and high-quality telemedicine models</li> <li>• Expand care to underserved areas by building primary and secondary care hospitals in semi-urban and rural areas</li> <li>• Use telemedicine and e-health platforms to reach patients in clinics in underserved areas</li> <li>• Design products for easy transportation to or storage in remote areas</li> </ul>	<ul style="list-style-type: none"> <li>• Develop innovative healthcare-based information and communication technology (ICT) services that saturate the global market and drive down ICT healthcare costs for all</li> </ul>



One area of considerable opportunity for private sector development is in producing and supplying assistive technologies. The World Health Organization’s GATE (Global Initiative on Assistive Technologies) is motivated by recognition that there are some 1 billion people living with disability now and this is forecast to increase to around 1.4 billion by 2050.<sup>56</sup> Some 80% of these people live in low or middle income countries, where poverty and disability are a vicious circle of exclusion and limited means.<sup>57</sup> There are now 700 million older people, and this number is projected to rise to 2 billion by 2050, and at least 80% of them need assistive devices, some need more than one.<sup>58</sup> At present, there are around 1 billion assistive devices now, with nearly 3 billion being required by 2050.<sup>59</sup>

In low income countries, only 5%–15% of people in need can access assistive devices, constituting a huge unmet need for such devices. Assistive technology (AT) is the gateway to inclusion, allowing people with impairments from chronic disease or disabilities to realize their right to social inclusion and fuller participation in society. In short, AT is about fulfilling people’s human rights. Importantly, ATs can also enable their users to become net contributors to economic growth. This is symbolically very important, as one of the greatest barriers for people with disability is stigma and opportunities to counter such stigma are offered by AT.

New health technologies can have profound effects for individuals and systems. New technologies can change individuals’ capability to cope with tasks that they could not have competently managed before. But technology can also be transformative—to change the format of how we work, of how and what individuals contribute to a new type of system.

**Notes**

<p>1 UN SDSN 2014.</p> <p>2 Bonds and others 2010.</p> <p>3 Bonds and others 2010.</p> <p>4 Bonds and others 2010.</p> <p>5 WHO 2004.</p> <p>6 WHO 2013.</p> <p>7 WEF 2009.</p> <p>8 WHO 2009.</p> <p>9 WHO 2009.</p> <p>10 WHO 2009.</p> <p>11 WHO 2009.</p> <p>12 Stuckler 2008.</p> <p>13 Esson and Leeder 2004.</p> <p>14 UN SDSN 2014.</p> <p>15 MacLachlan 2012; Khasnabis 2012; Mannan 2012.</p> <p>16 Chan 2012.</p> <p>17 McAuliffe, Manafa and others 2010; McAuliffe, Daly and others 2013; Bradley and others 2013.</p> <p>18 WHO 2006b.</p> <p>19 WHO 2006a.</p>	<p>20 Manderson and others 2009.</p> <p>21 Imperial College London n.d.</p> <p>22 Manderson and others 2009.</p> <p>23 Manderson and others 2009.</p> <p>24 Manderson and others 2009.</p> <p>25 Manderson and others 2009.</p> <p>26 Burton 2010.</p> <p>27 Abdullah and others 2014.</p> <p>28 Xia and others 2013.</p> <p>29 MacLachlan 2009.</p> <p>30 MacLachlan 2006.</p> <p>31 Smith, Brugha and Zwi 2001.</p> <p>32 Smith, Brugha and Zwi 2001.</p> <p>33 Commission on the Private Sector and Development 2004.</p> <p>34 Commission on the Private Sector and Development 2004.</p> <p>35 www.kenana.com, accessed 5 August 2014.</p> <p>36 Commission on the Private Sector and Development 2004.</p> <p>37 Psacharopoulos and Nguyen 1997.</p> <p>38 Psacharopoulos and Nguyen 1997.</p> <p>39 Donelli 2013.</p>	<p>40 Ministry of Health, Government of Uganda 2009.</p> <p>41 Ministry of Health, Government of Uganda 2009.</p> <p>42 UNDP 2005.</p> <p>43 Foster and Mackintosh-Walker 2001.</p> <p>44 UNDP 2005.</p> <p>45 Foster and Mackintosh-Walker 2001.</p> <p>46 Foster and Mackintosh-Walker 2001.</p> <p>47 Marriott and Ndour 2013.</p> <p>48 Twose 2013.</p> <p>49 UNDP 2005.</p> <p>50 Smith, Brugha and Zwi 2001.</p> <p>51 Smith, Brugha and Zwi 2001.</p> <p>52 Smith, Brugha and Zwi 2001.</p> <p>53 All information on Dow Chemical downloaded from www.dow.com on 13 February 2014.</p> <p>54 Vallières and others 2013.</p> <p>55 Vallières and others 2013.</p> <p>56 WHO 2013.</p> <p>57 WHO 2011.</p> <p>58 Khasnabis 2013.</p> <p>59 WHO 2013.</p>
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## **4. SKILL BARRIERS AND OPPORTUNITIES**



#### 4. SKILL BARRIERS AND OPPORTUNITIES

This chapter addresses the challenges of providing access to full and productive employment for all by examining the role of education and training in preparing people for work—in secondary education, postsecondary education, vocational training, the transition from school to work and in the workplace itself. Given the interface of education, work and poverty reduction, it focuses on the ways that contextual factors and individual differences affect how people adapt.

Identifying effective strategies to reduce and eliminate poverty, unemployment and social exclusion has eluded scholars, public policy analysts, government officials and private sector leaders. But promising advances in social sciences can ameliorate aspects of global poverty. Three conceptual frameworks frame this review of research and practices to reduce poverty through education, training and work.

Amartya Sen, a Nobel-prize winning economist, has written extensively about creating the conditions that will ameliorate global poverty and other forms of social exclusion.<sup>1</sup> In the book, *Development as Freedom*, he argued that one of the primary tools to defeat poverty is the development of human agency within the context of social, political and economic freedoms. According to Sen, agency reflects the experience of initiating activity and pursuing goals that are consistent with one's own values and life objectives. He proposes that agency is most likely to emerge when people live in communities that offer "economic opportunities, political freedoms, social facilities, transparency guarantees and protective security." His perspective supports the notion that education is a form of freedom essential in creating agency among individuals and organizations. Martha Nussbaum has further advanced Sen's initial formulations by advocating that all people should have opportunities to reach their highest level of capabilities, to live a life of dignity and to engage in decent and meaningful work.<sup>2</sup>

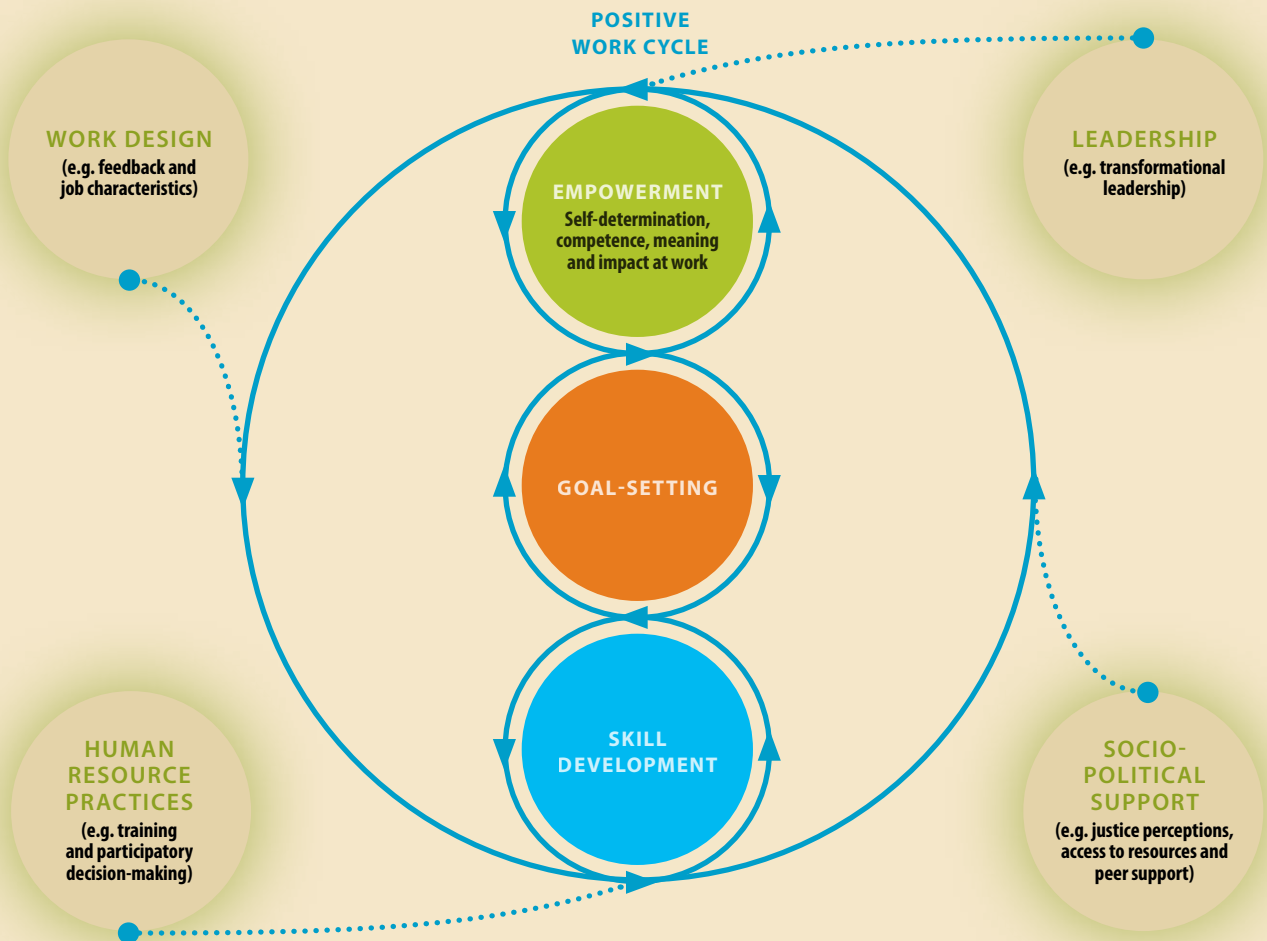
From a somewhat different perspective, David Blustein and his colleagues have developed a framework that seeks to understand the role of work in people's lives. This perspective, known as the psychology-of-working, is based on the assumption that work has the potential to fulfil three human needs—survival, social connection and self-determination.<sup>3</sup>

- The survival needs are clearly manifested in the Millennium Development Goals and other recent initiatives that underscore work as a means of reducing poverty.<sup>4</sup> Work that offers liveable wages is perhaps the single most effective weapon in reducing poverty, a view consistent with Sen's contributions and the Millennium Development Goals.
- The social connection needs are manifested in the observation that work provides people with sustained contacts with others, creating sources of support essential in transferring new skills and in developing a meaningful life.<sup>5</sup> A related aspect of the needs met by work is reflected in the sense of connection that people feel in relation to the broader social world. When people are working, they are more likely to feel invested in their families, communities and overall global citizenship.
- The self-determination needs refer to the capacity for work to provide people with a means of shaping their own lives; in a sense, the self-determination needs parallel Sen's notion of agency, underscoring the human desire to create, contribute and collaborate.<sup>6</sup>

Work and education that satisfy these three needs are instrumental in promoting physical and mental well-being, along with the well-being of communities and nations. In addition, the psychology-of-working perspective has detailed how education and other resources (such as safe communities, adequate healthcare,



FIGURE 4.1 EMPOWERMENT AND THE HIGH-PERFORMANCE WORK CYCLE



Source: This figure represents a synthesis and simplification of multiple theories and frameworks of workplace motivation, empowerment and skill development; the placement of arrows is not meant to indicate any specific order of operations. The figure is synthesized from theories, frameworks and empirical findings from Gagne and Deci (2005), Locke and Latham (2013), Meyer, Becker and Vandenberghe (2004), Seibert, Wang and Courtright (2011) and Spreitzer (2008).

housing and access to nutritious food) are essential for individuals in creating a meaningful and dignified working life. Another key attribute of this perspective is explicitly linking education and training with the world of work.

Finally, overlapping with both of these perspectives is insight from the study of the psychological dynamics of the workplace. Based on over a century of research into how best to promote both individual and group



#### 4. SKILL BARRIERS AND OPPORTUNITIES

well-being alongside organizational productivity, the literature has highlighted a powerful and self-reinforcing “positive work cycle” between well-being and work performance given decent working conditions, effective leadership and management practices, sociopolitical support, and properly designed jobs—that is, jobs with skill variety, designed to promote positive outcomes. In line with Blustein’s framework, fulfilling individual and group needs for social connections, basic resources (such as a living wage) and self-determination is particularly important in the workplace. In general, people’s need for a stable income and rewarding work and the needs of a workplace such as new customers help shape work and career goals. Under the right conditions, when individuals and groups successfully reach these goals they gain a sense of self-efficacy and satisfaction, become more committed to further pursuing similar goals and set new and more challenging individual or group goals.<sup>7</sup> Obviously, people need more than individual or group goals to stay motivated at work, yet goals are fundamental to motivation.

To a greater and lesser extent across cultural and socioeconomic contexts, people are naturally motivated, both individually and collectively, to set and work towards goals for external outcomes like financial rewards and to fulfil internal psychological needs.<sup>8</sup>

In addition to the internal need for a meaningful degree of control at work (that is, the need for self-determination, individually or as a group), a strong and sustainable motivation to work can be created by helping to ensure that people feel competent at work, that their efforts influence or make a difference in the workplace and that their work is meaningful and in line with their personal values.<sup>9</sup> Together, all these internal needs help determine someone’s or some group’s level of psychological empowerment in the workplace.<sup>10</sup>

Empowerment is closely related to Sen’s framework of agency and human capabilities.<sup>11</sup> When people pursue and attain challenging goals, they often become better, or more skilled, at what they do. Along with education

and training prior to work, informal and formal learning opportunities at work are two of the main ways people learn and develop skills across their lifetimes.<sup>12</sup> Furthermore, as people reach their goals, they are likely to have a positive impact on their workplace, and when they choose to set new more challenging goals, they can gain a deeper sense of self-determination and empowerment.<sup>13</sup> Moreover, the process of building self-efficacy through skill development is an important way to support empowerment by enhancing an individual’s or a group’s sense of competence at work.<sup>14</sup> Altogether, the reinforcing relationships among goal setting, skill development and empowerment combine to

create a powerful “positive work cycle” that benefits both the worker and the workplace. This positive work cycle can be either inhibited or accelerated by workplace leadership and human resource management practices, by the characteristics of someone’s job and by levels of sociopolitical support (figure 4.1).

The perspectives of Sen and Blustein synthesize macro- and micro-analyses of the role of education in promoting agency and reducing poverty. The linking, capacitating role of the meso-level workplace in promoting, or limiting, empowerment and poverty reduction, underscores the need to understand how the environment, writ large, affects education and work; positive work cycles in turn underscore the ways in

**To a greater and lesser extent across cultural and socioeconomic contexts, people are naturally motivated, both individually and collectively, to set and work towards goals for external outcomes like financial rewards and to fulfil internal psychological needs.**





which individuals and groups shape their destinies. The human development perspective, the psychology-of-working framework and the dynamics of the positive work cycle, considered in tandem, suggest that a good life in the context of education and work would be one where people can attain agency/empowerment, acquire skills and work opportunities that provide a means of survival, and engage in work that is both meaningful and dignified.

## CONTEXTUAL PERSPECTIVES

Understanding the world of work requires mapping vastly different life experiences, ranging across the full spectrum of opportunities and barriers, including access to education, financial affordability, human freedoms and safe communities. For some individuals, the world of work provides opportunities that are consistent with their goals, interests, values and talents and that offer the promise of empowerment. But the vast majority of people around the globe who obtain employment work in jobs that are not “chosen.”<sup>15</sup> For many people, particularly those in least developed countries, work is arduous, tedious, often unsafe and inconsistently available. Indeed, for most people around the world, the choice of a job is based on availability. Moreover, the struggles of unemployment, underemployment, exploitation at work and the need to migrate to safer or other more economically vibrant communities is an unfortunate reality for a large number of adults around the world.

Complicating this huge distance between the “haves” and “have-nots” is the Great Recession, which has transformed the world of work around the globe.<sup>16</sup> In many post-industrial societies, like the United States and Europe, the Great Recession has had the most pernicious impact on the lives of low to middle income families, the youth population and minorities.<sup>17</sup> It also has ravaged the porous safety net that communities and nations have developed for those without access to work.

Many scholars have discussed the end of the “career contract” between employers and employees who often had long-term economic relationships in industrial societies.<sup>18</sup> Of course, the “career contract” for people affected by poverty and for those living in least developed countries barely existed, if at all.<sup>19</sup> The world of work is characterized by sporadic opportunities to work, grinding unemployment and outsourcing of service and manufacturing jobs to nations and regions with lower wages. In addition, the increasing use of short-term work contracts rather than longer term relationships between employer and employee is rapidly becoming the norm around the globe.<sup>20</sup>

In contrast with advice from Sen’s model of sustainable development and other antipoverty initiatives,<sup>21</sup> the world of work for most people does not typically offer the conditions for the development of human agency and capabilities. That said, many public and private sector leaders are aware that investments in social and human capital are critical in improving the well-being of people and their communities.<sup>22</sup> One of the challenges is to provide the most effective education and training opportunities that are most relevant to a given community or nation. For example, in many post-industrial nations, an excess of workers exists for many fields, though some industries face shortages of skilled workers (especially in science, technology, engineering and math—STEM).<sup>23</sup> In lower income countries, the attraction of low wages is often hindered by a lack of skills in the workforce.<sup>24</sup> By connecting the needs of a community to the development of educational and vocational training goals, communities can develop a collective level of agency that may lead to sustainable development and considerable poverty reduction.



## Education

Education and pre-employment training are among the most important and effective means of building skills and combating poverty.<sup>25</sup> Indeed, across most parts of the globe, education is inversely associated with unemployment and poverty and positively associated with income, job success, civic participation, access to power and physical, social and mental well-being. The importance of education as a prerequisite to employment that offers a living wage and opportunities for advancement has increased as more routine work has been automated. The best jobs often go to persons with advanced academic and technical skills, and an array of adaptive non-cognitive skills.<sup>26</sup>

A recent National Research Council report identified three major sets of skills essential for work and life.<sup>27</sup> In addition to academic/cognitive skills, intrapersonal skills (intellectual openness; work ethic and conscientiousness; and positive core self-evaluation) and interpersonal skills (communication, collaboration, responsibility and conflict resolution) are critical for success in the 21st century. Education and training are thus challenged to equip individuals with the cognitive and noncognitive competencies they need to be adequately prepared for lives of agency, productivity and engaged citizenship.

**Across most parts of the globe, education is inversely associated with unemployment and poverty and positively associated with income, job success, civic participation, access to power and physical, social and mental well-being.**

Although access to education is vital for entry into the levels and types of work that meet human needs for survival, connection, self-determination and empowerment, educational opportunities are not equitably distributed. While progress has been made globally in universal primary education, illiteracy rates remain very high in low income countries. Enrolment in secondary education and other programmes that offer appropriate training and life skills excludes numerous social, geographic and economic groups. Household wealth, disability, rural location, language, religion, political and religious conflict, natural disasters, migration, displacement and caste often intersect, undermining the quality and level of education accessible to those most in need.<sup>28</sup> Indeed, the youth most in need of quality education to advance out of poverty are likely to experience the schools most affected by poverty<sup>29</sup> and often plagued by dysfunction and shortages of trained teachers. And many school systems in least developed countries exclude the voices of the local communities and are generally inadequate in meeting the educational and social needs of the historically disenfranchised.

Societal barriers to education and other opportunities key to social mobility can be internalized in ways that undermine individual and group empowerment—as understood through expectations, hope and motivation.<sup>30</sup> Children and families living in poverty often cannot afford to pay fees for school supplies and uniforms. And many youth engage in child labour that only perpetuates their social vulnerability and societal marginalization, offering little escape from poverty.<sup>31</sup> Access to childcare and decent healthcare also varies by social class and influences the capacity of individuals to stay in school.<sup>32</sup>



## Connecting education and work

Two premises underscore the importance of the education and work connection. First, schools that offer students a clear understanding of how their efforts can enhance the quality of their work lives are more likely to promote student engagement and motivation, which can lead to higher academic achievement. Second, educational programmes in secondary and postsecondary settings that are explicitly embedded in working contexts, such as work-based learning, provide students with a more seamless transition to the world of work. Consistent with those premises, career development education offered in school settings with links to experiences in the community can help young people learn more about future careers and the skills needed for the workplace.<sup>33</sup>

Work-based learning—including internships, apprenticeships, job-shadowing and other vocation-specific curricula developed through partnerships of schools with the private and public sectors—provides opportunities for youth to explore future work possibilities, connect current learning to work preparation and develop a range of life and work skills.<sup>34</sup> Mentoring from work supervisors can help young people understand the connection between their current academic studies and their vocational futures.<sup>35</sup>

School-to-work programmes assist students' transition from school to the workplace, whether or not they choose to enrol in postsecondary education or training en route.<sup>36</sup> Such well-developed programmes, with elaborate systems of internships and collaborations between secondary schools and employers, have been established for decades in Austria, Germany, Japan and Switzerland, among other countries, with measurable positive impact.<sup>37</sup> For youth who do not pursue postsecondary education, vocational training within the school curriculum and through internships and collaborations with employers can facilitate entry into meaningful work.

Vocational training refers to intentional and systematic efforts to provide individuals with skills to function in a given work context. The skills may include specific work-based tasks (operating factory machinery), general academic competencies (literacy) and adaptive internal attributes (self-efficacy, resilience, interpersonal skills).<sup>38</sup> Emerging best practices in training reveal that initiatives that are based on learning theory and attend to individual and cultural differences of trainees are most effective. Active learning (where trainees develop mental models of a task) and web-based training modules are particularly promising.<sup>39</sup>

Recent efforts by the Sustainable Development Solutions Network (SDSN) provide specific guidelines on how to match the needs of industries with educational and training goals.<sup>40</sup> Building on the observation that industries, schools and individuals often are not well integrated, the SDSN presents a compelling case that intentional educational, training and school-to-work systems can enhance opportunities and reduce poverty.

These broad-based programmes can improve education and work preparation. Programmes that connect school and the workplace can help youth understand the importance of school to promote engagement in academic and technical skill development, and to provide real-world experiences for developing the interpersonal skills, self-regulation, confidence and internalized individual and social identities that play significant roles in school, work and life success.<sup>41</sup> Indeed, many individual attributes determine how people react to and take up educational and training opportunities.



### Training and skill development at work

A substantial amount of skill acquisition takes place at work.<sup>42</sup> Indeed, training on the job, which is only one form of skill development at work, has been estimated to account for considerable human capital formation.<sup>43</sup> A recent study in more than 20 higher income countries confirmed that work activities and occupational characteristics are related to proficiency in key skills including literacy and numeracy, even after education is taken into consideration.<sup>44</sup> Moreover, a fundamental component of skill development is practice,<sup>45</sup> and opportunities to practice work skills occur largely, and sometimes exclusively, at work and also across a worker's career. In a study in eight lower income countries, there is an indication that engaging in certain tasks at work can hone important cognitive skills like attaining higher levels of reading proficiency.<sup>46</sup> Furthermore, there is evidence that as workers age, formal education plays less of a role in determining skill proficiency, and skill retention is increasingly shaped by the use of skills at work and outside of work.<sup>47</sup>

In light of the substantial skill acquisition that takes place at work and the fact that private sector organizations provide almost 90% of jobs globally,<sup>48</sup> the role of the private sector in poverty reduction through skill development is hard to overstate. Therefore, any indications that opportunities for work-based skill acquisition are limited at the base of the pyramid pose a serious threat to poverty reduction efforts. There are indications that the share of firms that support formal training, and the proportion of workers offered formal training, might be smaller for low income countries than for high or upper middle income countries.<sup>49</sup> In addition, part-time workers who often help make up the large informal sectors of lower income countries might have fewer opportunities to use skills than full-time workers.<sup>50</sup> Moreover, despite fast growth in lower income countries, large gaps exist with high income countries in labour productivity, an important indicator for the use of new technologies that often require training and skill development.<sup>51</sup>

**A fundamental component of skill development is practice, and opportunities to practice work skills occur largely, and sometimes exclusively, at work and also across a worker's career.**

Underinvesting in training and skill development at the base of the pyramid might be due to a perception that training is not worth the investment. Firms in low income countries often tend to be small,<sup>52</sup> which can increase the relative costs of formal training for them.<sup>53</sup> In situations where highly skilled workers are in short supply, and therefore relatively expensive to hire, employers and employees may underestimate the benefits to skill development.<sup>54</sup> Indeed, cross-

national research in lower income countries has shown that workers often lack precise information on what skills might be relevant for advancement in their careers.<sup>55</sup> Together, it seems that a relatively low incidence of high-skilled workers and an underappreciation of the benefits to skill development can help create the negative cycle of low-productivity and low-wage work that exists at the base of the pyramid.<sup>56</sup>

Other major barriers to skill development at work are limitations of investments in training due to concerns that workers will leave the organization after their training.<sup>57</sup> Social discrimination at work can also block some groups of workers from training opportunities<sup>58</sup> (for example, women might not be considered for training in some types of work due to gender stereotypes). Another set of barriers comes from the fact that many training efforts are likely to be either ineffective or inefficient due to a frequent lack of information at the base of the pyramid about what skills people have, what skills are needed in the workplace and what the best methods of training are.<sup>59</sup>



A lack of understanding about the best methods of training at the base of the pyramid is partly a result of the fact that work is often fundamentally different in the informal sector that predominates at the base of the pyramid than it is in many high income countries. In sharp contrast to high income countries, where over 86% of the workers are in formal work arrangements, only 18% of workers in developing countries earn formal wages and salaries.<sup>60</sup> In addition, many workers are in vulnerable working arrangements as self-employed workers or unpaid family workers. Vulnerable and informal work is characterized by a lack of formal registration of the firm and employees, a lack of secure employment contracts, more volatile pay, inferior working conditions and lower productivity than wage-based formal arrangements.<sup>61</sup> In these working conditions and arrangements, many “high-performance” human resource practices—including approaches to training that have been studied in a variety of contexts<sup>62</sup>—might be ineffective, inapplicable, perceived as culturally insensitive or even harmful. Prominent examples of these practices include paying for performance, rotating employees through various jobs to help develop their skills, using explicit and specific hiring criteria and developing formal procedures to share relevant organizational information with employees.<sup>63</sup>

A final reason that skill development at the base of the pyramid might be limited comes from the fundamental importance of decent, empowering and productive work to training effectiveness. Empowerment is often influenced by positive human resource practices, sociopolitical support and characteristics of jobs (see figure 4.1).<sup>64</sup> The potential lack of such practices, support and formal jobs in informal and vulnerable employment is likely to often undermine these sources of empowerment. More fundamentally, the frequent lack of even “decent” working conditions at the base of the pyramid<sup>65</sup>—including living wages, safe and secure working conditions and sufficient economic security in case of accidents or illness—are likely to undermine people’s sense of empowerment even further. Undermined empowerment may result in a lack of perceived self-determination and competence due to situational constraints.<sup>66</sup> Without a sense of self-efficacy at work, a concept related to one’s general competence in the workplace, people may not set or work towards challenging goals. Low self-efficacy may limit training effectiveness and informal learning outside of training.<sup>67</sup> Thus, a lack of empowerment might lead to a negative spiral of lowered performance and skill development (see figure 4.1).

Forms of sociopolitical support like access to informational resources and the help of peers can influence the positive work cycle. One major threat to a sense of sociopolitical support at the base of the pyramid is pay discrimination or inequality. Multicountry research in lower income countries has shown that large differentials in pay between expatriate and host nation employees, despite comparability in qualifications and skills, can be perceived as inequitable, demeaning and unfair; these perceptions can in turn undermine motivation at work and deplete vital skills from the workplace.<sup>68</sup> Conversely, ending discriminatory pay practices that violate people’s sense of fairness, workplace and work organizations can be seen as capacitors of workplace empowerment and poverty reduction.

## INDIVIDUAL BARRIERS TO LEARNING

Poverty occurs in an environment with multiple sources of oppression and marginalization.<sup>69</sup> Poor people are often marginalized because of other social identities, such as race, ethnicity and gender.<sup>70</sup> While focusing on individual differences, it is important to reaffirm here Sen’s view that economic development and poverty reduction are best fostered by human freedoms and democratic principles.<sup>71</sup> In addition, the lack of equity that exists in most societies has a cascading impact on education and work, affecting people in complex and pervasive ways.



**FIGURE 4.2 REQUIREMENTS FOR THE WORLD OF WORKING**



The view explored here is based on an individual perspective and offers knowledge to inform the development of programmes and systems that can enhance agency and change important aspects of the structures that sustain poverty and oppression.<sup>72</sup> In addition, attributes of individuals can help them to become engaged active citizens who can obtain the skills and power needed to change inequitable institutions. Certain aspects of human functioning have been related empirically to various indices of educational and vocational functioning and are amenable to change through systemic and individual interventions (figure 4.2).

**Internalization**

Internalizations reflect beliefs, attitudes and orientations towards others and the world, and aspects of identities that coalesce in inner life and organize interactions with others.<sup>73</sup> They are akin to a bookshelf

in people’s minds, providing a means of structuring identities and social interactions. By focusing on internalizations, it is possible to describe the complex ways for people to take in messages from the social world and from interpersonal relationships that form important aspects of their identities, self-concepts and capabilities.

The notion of internalizations helps in understanding how various aspects of the context (such as racism, sexism, classism and faith-based discrimination) shape individuals, often yielding a secondary oppressive condition. For example, racism is often internalized into one’s sense of self, culminating in feelings of self-denigration or alienation, and affecting behaviours, attitudes and motivations pertaining to education, work and agency.<sup>74</sup> When applied to the challenges of evoking and sustaining agency, internalizations offer policy-makers and private sector leaders with evidence-based ideas that are amenable to change and that can provide the focal point for efficacious and cost-effective interventions. In other words, contemporary social science can be used to deliver systemic changes to a community and tools that facilitate changes in individuals.



## Sources of resilience and resistance

One internalized attribute relevant to understanding education, work and poverty is resilience—the process of developing the competence and capacity to adapt to adversity, trauma and stressful life events, such as natural disasters, poverty and losses. Interventions that develop resilience and competence should consider both risk and protective factors in multiple domains (such as academic achievement and social competence).<sup>75</sup> Strategies to promote competence include reducing the exposure to stressful life events and occurrence of risk factors (such as low socioeconomic status, poor parenting or adult mentoring, neighbourhood violence and academic and social problems), increasing resources that protect youth facing adversity and improving the effectiveness of systems for development and coping.<sup>76</sup> Facilitating positive relationships with family and peers, providing access to quality education and strengthening self-esteem to support positive development can help youth overcome future challenges and enable long-term positive development and resilience.<sup>77</sup>

In a similar vein, the assessment and promotion of character strengths such as grit and self-control offer important insights into how to engage people in education and training, for both grit and self-control are linked to successful academic and vocational outcomes.<sup>78</sup> Grit refers to one's perseverance and motivation to achieve long-term goals, and self-control is the ability to regulate emotional and behavioural impulses or temptations in the moment. Interventions that foster these personality traits, along with other interpersonal competencies, are likely to create positive educational, vocational and health-related outcomes for individuals of different ages.<sup>79</sup>

Critical consciousness helps oppressed groups gain a critical understanding of society, politics and power relationships that maintain the status quo.<sup>80</sup> It emphasizes using one's awareness to take action against unequal systems to create a more just world. And it can serve as an antidote for communities that face insurmountable barriers due to the policies and practices that disregard their needs and rights and inhibit their educational and vocational development. For example, in countries where sociopolitical structures create obstacles for particular populations, increasing critical consciousness among disadvantaged ethnic, religious and sexual minorities can enrich their engagement in school and work and empower them to challenge injustice by helping them “read” their world and understand the reasons for structural inequalities.

Engaging in a critical analysis or inquiry of the sources of oppression can reduce the emotional oppression of marginalized individuals that stems from a sense of inferiority and self-criticism. An explicit focus on critical consciousness is positively associated with career development because it is likely to promote students' vocational aspirations and their perspectives on the importance of work to their futures.<sup>81</sup> The link between promoting critical consciousness and sociopolitical development is also strong. When combined with a sense of agency and action, sociopolitical development among youth, particularly those marginalized and disadvantaged due to systemic injustices, can promote student achievement.<sup>82</sup>

## The academic mindset

Another relevant internalization is the academic mindset.<sup>83</sup> One's beliefs about oneself in the academic context are critical for developing adaptive academic behaviours and improving performance. An adaptive academic mindset includes beliefs about one's capacity to set goals, one's ability to perform and how one's efforts can lead to positive outcomes.



Self-efficacy beliefs, as part of the academic mindset, reflect people's judgements about their abilities and capacity to perform a given task. People's educational and vocational performances along with their academic and work-related interests and decisions are significantly influenced by their self-efficacy.<sup>84</sup> But nonsupportive environments and systemic barriers, more prevalent in the context of poverty, may inhibit individual's perceived abilities.

One factor central to understanding the academic attainment of ethnic minorities, women and other disadvantaged groups is the negative stereotype about group membership.<sup>85</sup> Individuals who identify strongly with the stigmatized group are more likely to suffer from a stereotype threat. When they experience it, their emotional reactions can interfere with their school performance. And when it becomes chronic, it can diminish one's identification with school. So, those exposed to the negative stereotypes are less likely to do well academically—and perhaps more likely to miss opportunities to improve their social and financial conditions.

### Social identities

People build complex structures to help them understand the various dimensions of their social identities, such as their race, gender, ethnicity and social class. These identities typically help them in organizing their experiences and in managing themselves in various social contexts, including education, training and work.

One particularly powerful social identity is gender. Despite some marked improvements in the socioeconomic conditions of women across the world in the last few decades, gender gaps in many areas—including school enrolment, wages and political participation—continue to create problems for women, especially those in developing countries.<sup>86</sup> Overlapping with other social identities—such as ethnicity, socioeconomic status and geographic location—gender inequality exacerbates poverty.<sup>87</sup>

Reducing sexism and liberating women from the constraining aspects of gender-based socialization are powerful means for lifting communities (and nations) out of poverty.<sup>88</sup> For example, while Latin American and Caribbean countries have made significant progress in fostering women's agency and participation in education and workforce, indigenous women in Guatemala still struggle with restrictions that limit their agency, economic opportunities, educational attainments, access to healthcare and life expectancies.<sup>89</sup> And around the globe, women face traditional gender roles and gender socialization, which requires that they adopt domestic and family responsibilities, while discouraging their participation in the workforce, including traditionally male-dominated sectors.

The devaluation of personal care work continues to contribute to social inequities and affects perceptions about the most appropriate work that people are expected to have. In addition to shaping women's experiences in the world of work, gender socialization and stereotypes are likely to discourage men's participation in personal care (parenting, caring for older family members and volunteering for the community). As women participate more in the labour market and try to balance traditional female roles and the expectations of the male-dominant work life, failing to acknowledge the importance of both market work and personal care work for men and women poses challenges for people who need to engage in these types of work.<sup>90</sup>

Experiencing racial discrimination and stereotypes that occur in multiple contexts (educational and work settings), racial and ethnic minority youths are likely to internalize the biased messages they receive from the dominant culture, which can shape and constrain their academic and career trajectories. The concept of





racial identity status reflects individual differences in how people make meaning of their race and ethnicity in a diverse culture.<sup>91</sup> Differences in racial identity status are predictably associated with various outcomes, including academic performance and progress in career development. Fostering adaptive racial identity statuses, which include an affirmation of one's culture and the capacity to negotiate effectively with members of dominant groups, offer promising tools for systemic and individual interventions.<sup>92</sup>

Wealth-related inequalities also impede the educational and work experiences of individuals around the world.<sup>93</sup> Lack of access to resources that promote educational and career achievement is a clear impediment to social mobility and inclusion. For example, despite its intersection with gender and ethnicity in creating educational inequalities, social class continues to be the strongest predictor of achievement in the United Kingdom.<sup>94</sup> In addition, people internalize messages about their social class, which may become an embedded part of their identity, affecting a wide array of domains. Differences in how people understand their social class—their social class worldview—yield perspectives on the complex ways that people internalize their socioeconomic status in relation to prevailing social class norms within their communities.<sup>95</sup> For example, individuals from income-poor and working class communities may develop social class worldviews characterized by maladaptive academic mindsets and pessimistic expectations about their future.

The ways that people adopt and express other social identities such as language, religion, skin colour, sexual orientation and political views can also influence their educational and work-related outcomes. Limitations stemming from these social structures make it more difficult for individuals from underprivileged groups to identify with academic domains and to be successful at school and work.

## Motivation

Considerable attention has been devoted to developing the most effective individual and contextual conditions to promote self-regulated motivation among students and workers. An understanding of motivational theory and research can be used to foster conditions that support motivation and to prepare individuals with the knowledge and resources to resist the demotivating effects of oppression and poverty.<sup>96</sup>

Self-determination theory is based on the notion that people are inherently curious and oriented towards engaging in activities intrinsically interesting to them.<sup>97</sup> Most activities that people engage in are not intrinsically interesting, but people often are motivated to initiate activities because the outcomes are valued as important to one's life and future. Extrinsic motivation can be internalized and become part of the self-regulated system if selected factors are in place.<sup>98</sup> When individuals experience a sense of autonomy and competence in the given tasks required for an activity, they are more likely to be motivated to initiate and sustain activities, even if they are not intrinsically interesting.

Expectancy-value theory<sup>99</sup> is based on the assumption that motivational processes are shaped by individuals' "expectations for success and the perceived value of the task, including interest, importance and perceived utility."<sup>100</sup> This theory is particularly helpful in explaining the ways that failures reduce self-directed motivation and lead to feelings of disengagement from school.



## UNDERSTANDING THE SKILLS GAP AT THE BASE OF THE PYRAMID

A positive work cycle that supports both work productivity and enhanced well-being can be created by providing workers with decent work conditions and helping them fulfil important internal psychological needs. Two fundamental ways that this cycle can break down at the base of the pyramid relate to skills gaps. First, the skills needed at work and in life might not match the skills that people have. And second, the private sector or individuals seeking gainful employment might not know what skills they have, or what skills they need. At the base of the pyramid, there is evidence to indicate that positive work cycles have been undermined in both ways.<sup>101</sup>

Much of this chapter is focused on ways to ensure that the skills that people have match the skills needed to meet the goals of those individuals, of the private sector and of groups and communities. Efforts to develop skills and close skills gaps can be undermined if stakeholders do not have reliable and accurate information about what skills people have and what skills are needed to meet certain goals.<sup>102</sup> In low income countries, there is a particular lack of internationally comparative information on skill requirements and the relationship of skills to important social and economic outcomes.<sup>103</sup> Moreover, the usefulness of much of what information does exist has been called into question for the purposes of impactful policy-making and the support of skill development.<sup>104</sup> Often, the skill information that does exist, like years of education and professional qualification, is an extremely rough and indirect measure of actual skill levels or requirements. There is also evidence that some of this information, like years of education, is becoming less useful at the

base of the pyramid because as enrolment in education expands, its ability to indicate individuals' level of skills is decreasing.<sup>105</sup>

In response to these limitations, major international institutions are working to generate new skill information, including in lower income countries, that directly estimates various skill proficiency levels.<sup>106</sup> In addition, various lower income country governments have also begun to innovate in the area of skills information.

As a way to illustrate efforts in lower income

countries, we profile several related efforts from South Africa. The country has taken leadership in helping to develop cross-nationally comparable frameworks that provide detailed skill requirement information for professional qualifications.<sup>107</sup> In addition, South Africa has explored a number of methods to estimate which skills are both scarce and critical in the private sector—including through the insight of sector-specific bodies.<sup>108</sup> Efforts in South Africa, like in other lower income and emerging nations, have at times been assisted by high income countries. For example, Germany played a role in helping develop South Africa's occupational framework.<sup>109</sup> The private sector in lower income countries also plays an important role in creating skill information. For example, in Thailand, skills gaps have been identified by having companies compare themselves with their counterparts in the country and overseas.<sup>110</sup>

**Major international institutions are working to generate new skill information, including in lower income countries, that directly estimates various skill proficiency levels. In addition, various lower income country governments have also begun to innovate in the area of skills information.**



The word “skill” has often been used as useful shorthand for a broad range of descriptors. However, a skill is only one type of individual difference that matters at work, and confusing it with other descriptors might be potentially harmful if that confusion is incorporated into a skill-development initiative. For example, attempting to “train” people to have different personality traits like being more extroverted might undermine and threaten a unique and fundamental part of their identity and might waste resources that might otherwise be spent on targeting trainable individual differences or exploring ways to tailor interventions and jobs to people with different types of personalities. Major categories of individual differences include:

- Declarative knowledge that can be readily learned (for example, knowledge of anatomy).
- Procedural knowledge and skills taught through demonstration and practice (for example, repairing an automobile).
- Fairly stable cognitive and physical abilities (for example, short-term memory and arm strength).
- Other characteristics required for successful job performance include stable noncognitive traits like personality and value-based traits like vocational interests (for example, being extroverted).

These characteristics are commonly referred to as knowledge, skills, abilities, and other personal characteristics, or KSAOs (box 4.1).<sup>111</sup> Occupational information that accounts not only for generalized skills but also a broad range of KSAOs has been particularly useful in facilitating effective skill development. For example, in South Africa, an online career questionnaire allows job seekers to identify their vocational interests and then provides a list of occupations with characteristics that might fit those interests.<sup>112</sup> Taking into account other noncognitive and enduring traits like personality and interests can help create far more effective matches between people and jobs than is possible with less specific information like years of education.

Considering and measuring a wide range of KSAOs might seem like a luxury that only higher income countries can afford, but research and experience has supported the fundamental importance of incorporating an understanding and consideration of specific KSAOs to facilitate effective learning and training as well as workplace efforts to ensure a good “fit” between a person and work opportunities.<sup>113</sup> Just as important, the expression of enduring individual differences like various personality traits, interests and values is fundamental to human freedom because that expression relates to central human capabilities like imagination, thought, emotions, practical reason and affiliation.<sup>114</sup>

In terms of policy and practical considerations for the development of information about KSAOs, instead of advocating for the generation of any one particular form of information about work, it is important to emphasize the need to first consider the information’s use and purpose. Then the rich body of research on the generation of information about work can be used to ensure it is reliable, valid and practical by making strategic decisions about what to collect, how to collect it and from whom to collect.<sup>115</sup>



**BOX 4.1 HOW OCCUPATIONAL INFORMATION CAN BENEFIT WORKER WELFARE AND ECONOMIC PRODUCTIVITY**

Detailed information about the knowledge, skills, abilities and other personal characteristics (KSAOs) typically required at work, such as that provided in the United States’ Occupational Information Network (O\*NET), can benefit worker welfare and economic productivity in many ways. O\*NET includes on average more than 250 KSAO ratings for more than 900 occupations; this information accompanies ratings of work requirements (like work activities) and contextual aspects of work (like exposure to job hazards).<sup>116</sup> Four examples are worth considering in detail: workforce development and planning, assisting private-sector organizations in human-resource development, informing vocational training and facilitating scientific research into a wide number of important domains.

First, with a thorough understanding of what KSAOs are needed for given occupations, individual US state governments

have created detailed projections of the future importance and required expertise-level of various KSAOs by combining KSAO occupational requirements with occupational employment projections from local economic forecasts.<sup>117</sup> More broadly, US government entities have used combinations of economic data and KSAO occupational requirements to facilitate the setting of education and training priorities and to support active labour market programmes to develop workforce skills.<sup>118</sup>

Second, by using information from O\*NET, the private sector has been able to better estimate what KSAOs are needed to accomplish goals and to enhance productivity and worker well-being by designing jobs, writing job descriptions, strategically approaching human resource policies and practices and supporting worker health and safety programmes.<sup>119</sup>

Third, both the European Centre for the Development of Vocational Training and the United Kingdom Commission for Employment and Skills have relied on KSAO data from O\*NET to build occupational “skill profiles” designed to inform vocational learning and training efforts across Europe.<sup>120</sup>

Fourth, detailed occupational information from O\*NET has facilitated a wide variety of scientific studies with broad ramifications for global human welfare and economic growth. For example, KSAO and detailed work-requirement information has facilitated studies into everything from physicians’ skills and the role of motivation in Alzheimer’s disease to the skills necessary to support environmental sustainability.<sup>121</sup> O\*NET KSAO data have also been used to estimate the KSAO characteristics of more than 150 countries using either the occupational makeup of their workforce or the goods that they produce and export.<sup>122</sup>

**REMOVING BARRIERS TO UPWARD MOBILITY THROUGH SKILL ATTAINMENT**

Some of the most notable contextual and individual factors pertaining to education, work and training sustain social exclusion and poverty. Figure 4.3 provides a visual overview of the complex array of factors that can contribute to poverty eradication and dignified work.

**Investing more in education and skills**

To realize the potential of education to eradicate poverty, societies across the globe will need to invest more fully in education for all citizens. This investment includes funding quality schools with adequate learning resources, ensuring financial and political support for teachers and providing social resources and healthcare to allow children and families to engage fully in educational opportunities. Teachers, families and students are often blamed for failure to progress academically. But this chapter highlights the individual mechanisms for internalizing poverty and societal oppression and for undermining academic motivation.



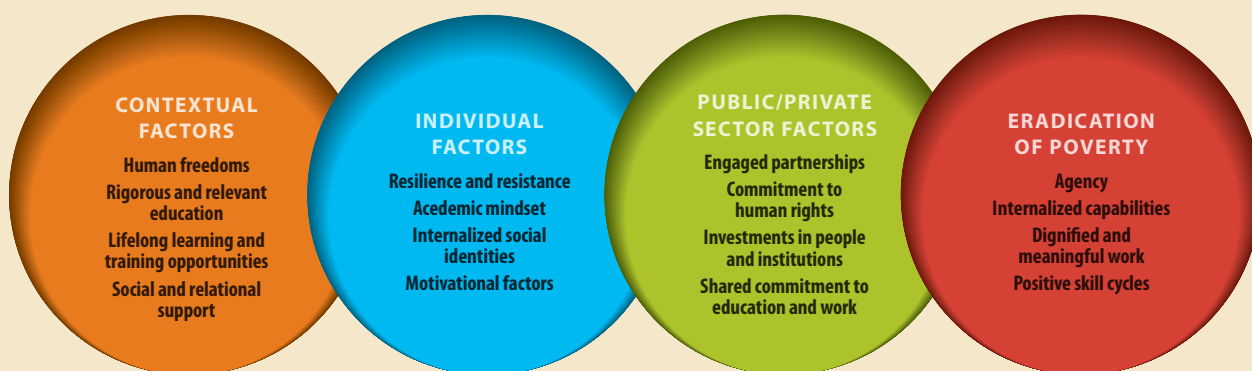
From a public policy perspective, this investment should be shared among public and private stakeholders. Public social service agencies can work more closely with the educational system to ensure that all young people have the social, emotional and health support they need to succeed in school. Private industry, which benefits from the development of an educated citizenry, has the capacity to invest human and financial capital in education systems. Financial support of the arts, culture, science, technology, sports and vocational programmes in schools can enrich curricular offerings for all students. The private sector can share its special expertise in teaching and mentoring students and educators both in the school setting and in the workplace.

In addition to academic and technical skills, the workplace demands employees with a wide range of intrapersonal and interpersonal skills. These noncognitive skills are important not only for future work but also for success in school and life. They also constitute critical psychosocial resources that allow marginalized and disenfranchised youth to be resilient, despite conditions of injustice.<sup>123</sup> The value of noncognitive skills calls for a holistic approach to education that extends beyond the cognitive domains. Special educational programmes have been integrated effectively with the academic curricula within schools to promote noncognitive skills as related to socioemotional learning and career development.<sup>124</sup>

### Preparing people for work

Preparing people for the competitive labour market also requires substantial education reform, along with more focused initiatives to help people become authors of their own careers. One of the major barriers in the fight against poverty is that many people do not feel connected to the world of work. Generations of social exclusion, unemployment and underemployment, and other forms of marginalization often leave people feeling disengaged from education, and ultimately, from the labour market. The lack of connection between work and other spheres of life undercuts natural strivings towards achievement and self-determination.

FIGURE 4.3 FACTORS LOWERING THE BARRIERS TO POVERTY ERADICATION





Inconsistent efforts to help students and adults become more engaged in school represent a significant barrier that may contribute to sustained disengagement from school. Despite the evidence supporting the use of career development education and counselling, these resources remain inconsistently available to students, particularly in income-poor communities and countries. Considerable research has supported the notion that intentional efforts to help students and adults plan their educational and working lives is instrumental in enhancing their capacity to benefit from opportunities and to bounce back from disappointments and losses.<sup>125</sup>

Many nations and communities struggle in providing effective and relevant job training programmes. A major barrier in job training is the lack of basic academic preparation, which can interfere with efforts by the public and private sector to provide people with 21st century skills. In addition, job training seldom balances a nimble responsiveness to current needs in the labour market with a focus on leading a community towards industries of the future. Public-private partnerships need to be able to envision the long-term labour needs of a community and nation. And job training programmes must become responsive to current needs and create the labour market needs of the future by providing people with skills that best position people and communities for innovation and entrepreneurship.

Another critical gap in training is the need for investments in lifelong learning. Preparing people for the stable “grand career narrative” is no longer an option for most working people as the world of work recasts common assumptions about work and career. People increasingly need to prepare for multiple jobs, often in very diverse fields, across their lifespans. A culture of lifelong learning will encompass a consistent commitment to retooling as new skill sets emerge. Inputs from the private sector are essential in developing this culture as industry will often have a close connection to the evolving skill sets needed in a given field and community. Moreover, the private sector—with educational and government officials—can develop standardized training programmes and certifications that ensure quality training as well as geographic mobility, both critical for a viable 21st century workforce.<sup>126</sup>

## WORKPLACE TRAINING AND EMPOWERMENT

Specific training and development by work organizations and by civil society, government and multilateral development agencies on behalf can help vulnerable and self-employed workers overcome barriers to skill development in the workplace and can benefit individuals, work teams, organizations and societies.<sup>127</sup> The focus here is on opportunities for these stakeholders to promote an understanding of the benefits of training, reduce the costs of training, use techniques to ensure that training is efficient and effective and further support training effectiveness by adapting high-performance human resource and work practices in high income settings to work at the base of the pyramid.

### Promoting knowledge about the potential benefits of training

An initial barrier to training being adopted by organizations and employees at the base of the pyramid is an appreciation of whether, and how, the needs of the organization and individuals can be met by skill development. Answering these questions requires completing the first step in nearly any successful training programme—a training needs analysis. Training needs analyses are the most important and effective way of understanding “gaps” between what skills exist and what skills are needed.<sup>128</sup> Frequently, a training needs



analysis works backwards from an organization's goals and distils those goals into specific work activities. Once the important activities and job duties necessary for meeting an organization's goals have been defined, the skills necessary to complete those activities are estimated. The connection between work activities and skills is accomplished through a combination of theory derived from existing research, comparisons of a job's work activities to other jobs with existing skill profiles, an experiential understanding of the job (for example, by direct observation of workers completing work activities) and empirical validation.<sup>129</sup>

A training needs analysis is often undertaken by a human resource professional in larger organizations in higher income countries, as the process of properly specifying work activities and determining the skills needed to complete them can be quite difficult and expensive. But for small or resource-constrained organizations, a number of excellent free resources, tools and guides like occupational skill profiles and qualification frameworks can assist organizations in completing these estimations. For example, organizations in South Africa can use their country's Organising Framework for Occupations or the South African National Qualification Framework to help estimate what important behavioural outcomes (such as work activities) people in certain occupations and at certain levels of expertise or qualification can be expected to complete.<sup>130</sup> Moreover, a wide number of civil society actors like professional associations and businesses, communities and national and international stakeholders can facilitate training needs analyses for employers, employees seeking to develop their skills and self-employed workers seeking to improve their businesses. Indeed, training-related active labour market programmes are perhaps the most common strategy to reduce unemployment and increase skills. Information-based market failures are a prominent concern of and barrier to many of these programmes.<sup>131</sup>

It is important to highlight that there is particular benefit to assisting organizations and individuals with performing training needs analyses. For example, even if an analysis does not determine that skill development is needed or advisable, the process of revisiting an organization's or individuals' work goals, specifying what work activities are most critical to meeting those goals, and dividing responsibility for those activities is part of high-performing "learning" or "adaptive" organizational behaviours that might be critical in vulnerable and unstable employment arrangements and the informal sector.<sup>132</sup>

### Reducing the costs of training

Organizations can use at least three methods to reduce training costs, and therefore, increase its attractiveness and likelihood of its adoption. First, informal on-the-job training can be used to reduce the costs of designing formal training programmes.<sup>133</sup> Second, depending on the skills to be developed, organizations can partner with other organizations that they would not likely compete with or lose employees to. Information technology, including mobile technologies, can be used to assist in skill development and might be of great assistance to collaborative efforts (see box 4.2 below). Third, increasingly a wealth of freely accessible educational and instructional material can be used to help train a wide number of skills.

Some of these resources are made available by industry-related guilds or associations while others come from governments, civil society or educational institutions. For example, the United States' Occupational Information Network (O\*NET; see box 4.1) includes free resources based on a database of the work activities, skills, work contexts and tools and technologies needed to successfully perform in more than 900 occupations.<sup>134</sup> Despite the potential usefulness of this and other resources from higher income settings, work information might need to be adapted in specific ways to account for potential differences in work across nations



of different cultural orientations and economic conditions.<sup>135</sup> In addition, the availability of this material is likely to be limited by organizations' use of certain languages in which the material is available (English and Spanish in the case of O\*NET) and by their access to the Internet where many of these resources reside.

### Effective and efficient training

While the design of training programmes is contingent on a great many factors that cannot be considered here, a number of fundamental principles and considerations that have emerged from well over 100 years of research into the science of training can be tailored to stakeholders' unique goals and situations.<sup>136</sup> But caution is warranted because many of the suggested practices have likely not been studied at the base of the pyramid. Indeed, information about the effectiveness of on-the-job training is sorely missing in lower income countries.<sup>137</sup>

Starting at the beginning of the training process, and as illustrated above, a training needs analysis needs to be performed to know exactly what work activities and what skills are to be trained. After a training needs analysis has been conducted, ensuring that trainees know what skills they are going to learn, why

they are learning those skills and that they will be supported in developing and using those skills after training will assist trainees' motivation and self-efficacy—two key ingredients to training success.<sup>138</sup>

Based on the characteristics of the skills to be learned, the time and resources available to the organization and the number of trainees, the most effective and efficient training method can be chosen. Core elements of successful training designs include the realistic demonstration of the skill for the trainee and feedback

**Transfer of training, and training success in general, is closely associated with framework of the positive work cycle. The success of training interventions, particularly skill development, is largely contingent on sociopolitical support, leadership and the opportunities for the skill to be used on the job (a factor of work design).**

both during and after practice.<sup>139</sup> For example, if training is devoted to teamwork skills, it might be beneficial for the trainee to watch the skills being carried out by a team, to practice the skills with a team and to receive feedback from the team on performance. Many important variations on these core principles might be recommended given the nature of the skill to be learned (its complexity and difficulty) including the immediacy and frequency of feedback, whether training should take place in one block or broken up into different parts, whether trainees are presented with difficulties/obstacles during training, the mode of training delivery (one-on-one demonstrations or classroom instruction) and the trainee-to-trainer ratio.<sup>140</sup>

A critical step in successful training is the assessment of the training's success. Training evaluations are essential in helping to ensure the long-term sustainability and effectiveness of training activities. Ideally, this step should overlap with and extend beyond the training itself. The most useful training evaluations might include consideration of motivation and attitudes, skill execution, and change in knowledge structures during training, immediately after training and then after a specified period of time.<sup>141</sup>

Perhaps the most critical, yet often least appreciated, aspect of successful training comes after training exercises are completed—ensuring that trainees' newly acquired skills are retained and used on the job.<sup>142</sup> Two





critical elements in ensuring the transfer of skills to the job are: ensuring that the skill is used on the job soon after training, and ensuring that the organization's leaders, members and systems support the skill being employed on the job.<sup>143</sup>

Transfer of training, and training success in general, is closely associated with framework of the positive work cycle. The success of training interventions, particularly skill development, is largely contingent on sociopolitical support, leadership and the opportunities for the skill to be used on the job (a factor of work design). Moreover, a prominent factor for training's success is often changes in people's self-efficacy in accomplishing goals related to the skill being learned, and this self-efficacy is often tied up in an individual's overall competence and empowerment at work (see figure 4.1).

### Developing skills through empowering work

A formal on-the-job training programme is only one of many ways for the workplace to shape skill development and learning. Other methods include informal learning, long-term career development and job design.<sup>144</sup> Much skill development occurs when workers are empowered, engaged, given challenging goals and properly supported. And one of the most fundamental ways to overcome skill barriers to poverty reduction is to promote both decent and productive work.

While specific high-performance work practices might not be applicable or appropriate in all contexts—particularly at the base of the pyramid, where informality and resource constraints are high<sup>145</sup>—the core underlying features and goals of these practices might be given their connection to principles of human development that emphasize the importance of developing work capabilities (skills). But a great deal more research at the base of the pyramid will be needed to confirm this. These core features include investing in employees' skills to meet the organization's needs, empowering employees (likely individually or collectively) to pursue the organization's goals and motivating them to do so.<sup>146</sup> In addition, in the background of a discussion of many high-performance work practices is an assumption that organizations identify their skill needs and goals (that is, they strategize for human resource concerns) and deliberately consider the effectiveness of organizational practices for skill development. Despite economic growth, the informal sector remains large in many low income countries.<sup>147</sup> Even if methods of formalization like registering businesses cannot be achieved, a likely critical element of sustainable skill development is transforming high-performance practices developed in formal organizational contexts into specific practices applicable in the informal sector.

In formal workplaces, skills gaps (and discrimination) in base-of-the-pyramid settings are not confined to the shop floor.<sup>148</sup> Even skilled professionals and managers, many in the private sector, are often paid less than a living wage,<sup>149</sup> and frequently far less than similarly skilled and experienced expatriate colleagues doing the same or similar job.<sup>150</sup> Multicountry research across the private and others sectors—from low income, emerging and fragile island economies—has shown that excessive income gaps (anywhere up to 9–10:1) can exacerbate local poverty (through inflation). Such gaps are sometimes seen by local workers as unjust and demotivating, and they can encourage turnover and brain drain and increase reliance on costly expatriate labour. They also undermine teamwork (sociopolitical support) and self-perpetuate stereotyping (see chapter 5). The gaps in status and rewards can thus become self-perpetuating and can create a form of “economic apartheid” that strips capacity.<sup>151</sup> Closing the gaps might open more pathways for positive cycles and skill development at work, build sustainable managerial capacity and address workplace inequality.<sup>152</sup>

## OPPORTUNITIES FOR THE PRIVATE SECTOR

While in the global economy the ability to efficiently produce, disseminate and use knowledge leads to competitive advantage at a macro level, knowledge acquisition and application of knowledge—technical know-how—has immense potential to reduce economic deprivation at a micro level. The private sector can collaborate with governments, academia and civil society to reduce the knowledge divide and to make knowledge accessible to all (boxes 4.2 and 4.3). Providing access to information and communication technologies (ICTs) is a good start but does not suffice. While governments have the sole responsibility to ensure fair and equitable universal access for all of its citizens through sound regulatory and fiscal policies creating a level playing field for players in the ecosystem and encouraging more investment and knowledge generation through inclusive policies, the private sector can step in by bringing innovative solutions to sharing and using knowledge.

### BOX 4.2 USING ICTS FOR SKILL DEVELOPMENT

Turkcell's Digital Academy is a concrete example of using ICTs for skill development. This open massive online course and education platform provides learning opportunities for the curious and willing to access knowledge. When it comes to education, technology helps, but without rich content it falls short of bringing desired results. So Turkcell cooperated with world leaders in education such as the Massachusetts Institute of Technology and Khan Academy to make cutting-edge knowledge available to Turkish people in Turkish language. The topics, varying from innovation and leadership to math and science, are designed to meet the needs of the public and to empower them.

Pinpointing local needs and devising tangible solutions to address these needs is another successful method of tackling root causes of poverty. For the individual, to be equipped with the necessary skill sets is another important factor in climbing the social ladder.

Realizing the problem of youth unemployment and the mismatch between education and skills in the formal education system, Turkcell has initiated the Developers of the Future project, which stimulates mobile app development for economic and social benefit. Providing the most comprehensive online Turkish content on app development and making it open licence, this service is accessible to all. Although the target audience is young people, people from all walks of life and with disabilities can learn to code.

Turkcell has addressed a shortfall in existing public services and as the number of subscribers increase each day, there is demand from public universities to use this content in their formal curriculum. The project takes a holistic approach and provides internal and external channels to potential developers on how to market and sell their products and to reach out to other stakeholders in the community.<sup>153</sup>

Community-based activities inevitably flourish when related to one's core business. A valid example of developing a profitable and sustainable business model in a relative income-poor region is the call centre initiative of Turkcell in Erzurum. The first of its kind to be set up in the east of Ankara, it opened in 2007. Since the start of operations, the Turkcell Erzurum Call Centre has created nearly 2,000 jobs. It created a local economic ecosystem and helped reduce brain drain in the region. Taking a risky business decision by establishing a call centre in Erzurum set a precedent for other players on how to sustain an outstanding and lucrative operation in the region. This was not only a pioneering step—it also created a domino effect in the ecosystem, paving the way for more call centres to be established by other telecom operators.



### BOX 4.3 PRIVATE SECTOR INVOLVEMENT IN LOANS FOR EDUCATION

Human Capital Contracts, though not a new idea, have recently become an innovative approach to lending for higher education. Lumni, a company in Latin America, designs and manages social investment funds, both nonprofit and for-profit, that invest into the education of students from

low income families where programme recipients are the first family members to attend college in 90% of the cases. Participants receive an amount covering the cost of their education and repay only after graduation as a fixed percentage of their income for a period of 120 months. Since

there is no set principal amount, some students repay more than others depending on whether their income is below or above the market average. Lumni maximizes the chances for success by offering its clients access to career development services and networking activities.<sup>154</sup>

The Erzurum example highlights the critical role of the private sector in local economic development and employment creation. The private sector detected a business need and set up a business to serve its customers better. Through this initiative, it created jobs, boosting the stagnating local economy. The call centre became a symbol not only of job prospects but also of hope for a better future. Many graduates of Erzurum University—who would have migrated to Istanbul in the absence of the call centre—opted to stay in Erzurum. The centre also helped reduce widespread informal economy and led to a dramatic increase in female employment, contributing to a rise in Turkish GDP.

### Career development

The need for career guidance in the developing world is clear, with many such services available only through private channels. Currently, large corporations with recruiting specialists and internship programmes generally seek top talent at top universities. But other than apprenticeship structures, there are few opportunities for young people studying vocational disciplines.

Small and medium enterprises (SMEs) could partner with development agencies to structure and market internship opportunities, a collaboration that could be especially advantageous in developing countries. SMEs continually complain of not being able to find and hire talent because they lack the resources to promote and recruit effectively. By bringing them into the process of developing talent—both partnering with educational institutions and providing training on the job—they could increase the size of the talent pie and have early access to potential hires. SMEs could also expand the diversity of internship and training options. Whereas large corporations are generally limited to specific functions, the size and breadth of the SME market would engage a wider range of students and interest areas.

Opportunities for effective private and public sector collaborations abound when considering the role of career development education in combating poverty. Using evidence-based practices developed in countries that have integrated career development education into the full spectrum of the educational pipeline can be applied to income-poor communities and developing countries. Programmes that build on empowering students and adults with both academic and noncognitive skills can be implemented in educational settings, employment contexts and job training programmes. These interventions can be structured as freestanding workshops or classes and may be embedded in educational and training curricula. The private



sector may find these sorts of interventions to be particularly helpful in setting up new ventures in income-poor communities, which could be very useful in building an engaged and adaptive workforce.

Helping individuals develop self-determined career plans, using the latest evidence-based practices in career development, can help people and industries “match” so that both the employees/students and employers/organization experience a “fit” that will yield satisfaction and meaningful accomplishments. However, training in basic academic competencies will typically need to be a foundational skill, particularly in communities where low wages attract private sector investment, but the labour market is limited in its capacity to master 21st century job tasks. It would be useful to design and evaluate career development models and tools that can be used by impoverished students and adults in varied national contexts, which would help them feel connected to education, work and training. Using the motivational tools previously reviewed in conjunction with other findings about optimal conditions for learning will be instrumental in developing vocational training programmes that create a viable workforce and lift people out of poverty.

In many developing countries, comprehensive career counselling and placement at the university level is available only at top private universities and through private consultants. So the vast majority of students are left without guidance, without direction and without resources. This is a clear market need for someone to develop a low income model to career counselling, either getting universities to outsource the service or provide it to students directly through a distributed, Internet-based, crowdsourced platform. The platform could allow students to explore different sectors, listen to a variety of professionals from different fields and explore their own areas of interest.

Current job placement sites are not geared towards young people with little to no experience, and the sheer volume of CVs applying to entry-level openings force many corporations to make cuts based simply on university quality, often eliminating disadvantaged yet equally talented students. This is a clear market opportunity to redesign the job search/job placement mechanism, especially for the lower tier university and vocational school graduates. This could encompass a centralized postgraduate testing and pre-interview structure, with a focus on both hard and soft skills, allowing companies to save time and resources to find correct hires.

Another market opportunity is creating study groups and learning communities in lower income neighbourhoods to help address the issue of identity, especially where it becomes a detriment to learning and growth. Where less-educated parents are unable to provide the necessary support, groups staffed by volunteers can come together to do homework, study and support one another, creating a space for self-exploration. Such groups can be funded by donors, local municipalities and even small fees from participating families.

### **Vocational education and training**

Vocational training offers a powerful vehicle to fight poverty (box 4.4). Private-public collaboration in a community college or technical college might respond to the need for healthcare technicians by setting up programmes to train unemployed and underemployed people who could benefit from these openings. Businesses can, with their expertise, support the process of preparing vocational education and training systems to provide tailored and flexible responses for the diverse needs of learners. For individuals, job training efforts would benefit from using the latest findings in the social sciences to design programmes that enhance motivation, learning transfers and skill development. Training should build on an individual’s natural striving for mastery and self-determination.



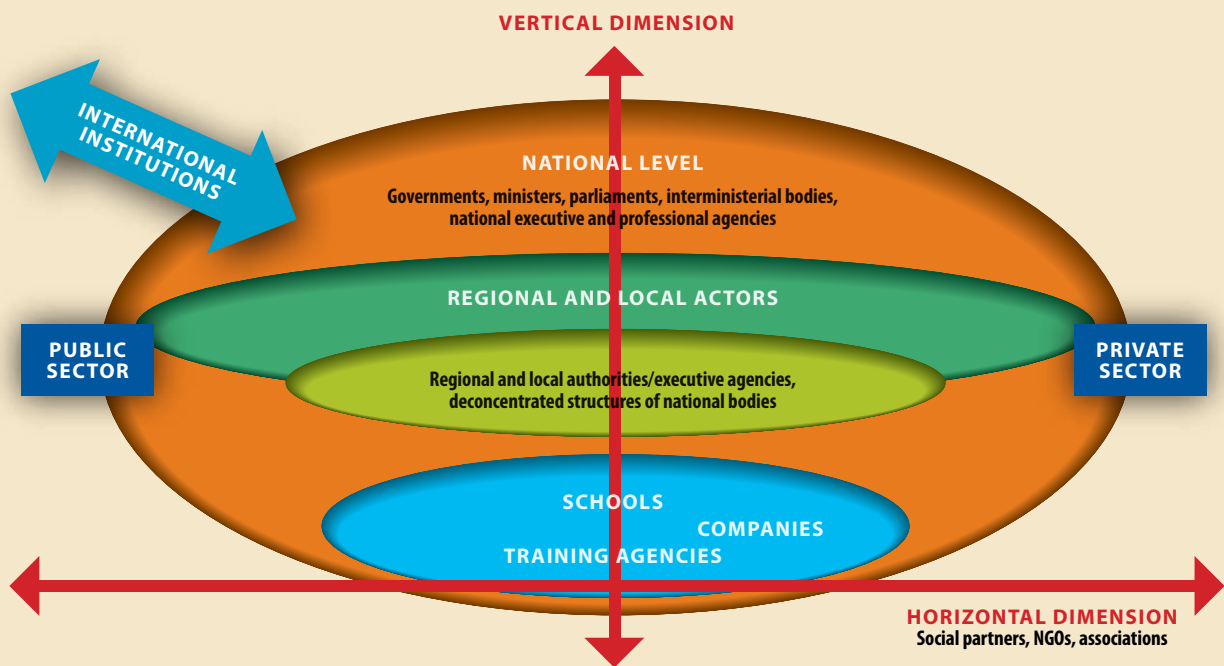
**BOX 4.4 EDUCATION AND TRAINING COMBAT POVERTY**

Addressing literacy, numeracy and vocational skills is imperative to strengthening capacity building measures that target poverty reduction. Fundacion Paraguay, a social enterprise, utilizes such a model of interconnecting initiatives to support entrepreneurship in rural regions of the country. Educational programmes teach financial education to children and youth, while agricultural high-schools train them with hands-on field practice. By doing so, Fundacion Paraguay seeks to ensure that rural youth acquire the knowledge necessary to either enter the agricultural sector

or continue studying. Because the schools allow for the selling of products, they are self-sustaining business units through which the children of local farmers gain experience without the burden of attendance costs.

This unique model of blending entrepreneurial education with practical skills in an accessible environment can be replicated elsewhere, as it contextualizes local conditions and prioritizes the empowerment of low-income communities.<sup>155</sup>

**FIGURE 4.4 ACTORS IN VOCATIONAL EDUCATION AND TRAINING MULTILEVEL GOVERNANCE**



Source: EFT 2013.



## 4. SKILL BARRIERS AND OPPORTUNITIES

Policy-makers can identify evidence-based methods of developing lifelong learning that enhances skills for workers and offers new skills-training for those who are unemployed and underemployed to meet the real needs of the workforce. Tailoring training to match the personal attributes and cultural contexts of individuals is essential in developing programmes that will be effective and relevant (figure 4.4). The private sector’s contributions can prepare an engaged and productive workforce.

### Developing entrepreneurship

Public-private partnerships can develop online and freely available platforms to impart entrepreneurial knowledge and skills, select for entrepreneurial abilities and personalities and motivate entrepreneurial success through goal-setting. Where necessary, this platform should include localized information and be easily accessible both online and in hard copy to micro, small and medium entrepreneurs. In today’s globalized business environment, mobile technologies can provide much-needed access to information that entrepreneurs need for their businesses and for access to distant consumers and clients. These mobile technologies can also serve as avenues for skill development for individuals, and groups through tutorials and low-fidelity simulations.

A host of online training tutorials designed to develop entrepreneurial knowledge and skills should be available for computers and mobile devices. Goal-setting apps that work on mobile devices, facilitate the establishment of specific, measurable, attainable goals and provide feedback to entrepreneurs on their goals would be a useful addition. Such a system could capitalize on social norms, where appropriate, by setting group goals (box 4.5).

#### BOX 4.5 REMOVING BARRIERS OF GEOGRAPHY, TIME AND PREJUDICE

Turkey’s young population has high unemployment rates and low on-the-job productivity. Long years of education do not guarantee a fulfilling job. Many degrees are irrelevant in the job market, and many people are dissatisfied with their ultimate career choices. For employers, the economic costs of hiring, training and then shortly afterwards losing disappointed employees due to early dropouts are staggering.

Many young people are exposed to the professional world for the first time at their first job interview, many years after making their education and career choices, which in most cases is too late to reassess them all again. As such, there is a wide gap between the school, work and society in Turkey, which poses

a barrier to the youth taking their first steps towards leading fulfilling working lives and the private sector’s productivity and efficiency.

Seeing an opportunity in this artificial gap, and capitalizing on Turkey’s high Internet penetration, Future Is Brighter ([www.gelecekdaha.net](http://www.gelecekdaha.net)) functions as an online and offline community that combines existing mentoring, coaching, career counselling and skill development approaches to create one coherent web platform. Youth can access all services free of charge, anytime and anywhere, no matter their economic or social status.

Professionals from companies contribute a small fee and connect to a younger generation and engage

in a meaningful social activity, while identifying possible future employees and starting investing in them early on. Future Is Brighter leverages the experience, knowledge, skills and networks of hundreds of voluntary role models, professionals, organizations and companies from all over the country to provide youth with mentoring and training.

More than 405 professionals have engaged with more than 1,000 youth to date—many interacting peer-to-peer with these young people for the first time through these personal mentoring and training. Having received very positive feedback and high interest from organizations and individuals worldwide, Future Is Brighter now has large potential to replicate and scale beyond Turkey’s borders.<sup>156</sup>



An incubation programme directed at low income SME entrepreneurs would be a potential business opportunity. The goal would be to support the growth of SMEs emerging from low income areas by creating a central knowledge database (procedures to start a business), a pool of available mentors and shared legal and accounting services. Financing could come from a hybrid model of government support and business membership fees. Bank sponsorships, especially those engaged in small business loans, could also be a source of support.

### **Mainstreaming occupational information**

In alignment with calls from the G20, the United Nations, the International Labour Organization, World Bank, and the Organisation for Economic Co-operation and Development,<sup>157</sup> joint efforts from national governments, international institutions and the private sector should concentrate on generating detailed and localized information about work including a robust spectrum of KSAOs that have been shown to relate to important work outcomes through empirical research in the organizational sciences. Studies should establish the degree of generalizability of existing occupational information in high income countries and make recommendations about the degree to which new information must be generated.

This information should be specific enough to facilitate a wide range of services to individuals, private organizations and policy-makers. And it should be easily accessible online, including for mobile devices, in users' languages. Where Internet access is particularly limited, alternative methods of disseminating this information will be needed. It might be both possible and advantageous to have a single international online platform for this information and to provide customized and localized versions by country and language. Most importantly, the private sector should play a key role in planning for and developing these resources.

The challenges that face poor and working class individuals and communities are daunting. But the contributions of scholars and policy-makers whose work has informed this chapter provide a well-articulated road map for the development of programmes and policies that can reduce poverty. The knowledge gleaned from this review, coupled with the other chapters in this volume, provides the foundation for new innovations and partnerships, which are critical for ensuring that school, work and a life of dignity and opportunity are open to everyone.



## 4. SKILL BARRIERS AND OPPORTUNITIES

**FIGURE 4.5 OPPORTUNITIES FOR PRIVATE SECTOR ENGAGEMENT IN REMOVING SKILL BARRIERS TO POVERTY REDUCTION**

	CSR—INTERNAL	CSR—EXTERNAL
<b>BASIC SKILLS GAP</b>	<b>Address directly the basic skills gap through literacy and numeracy education</b>	
	<ul style="list-style-type: none"> <li>• Enhance compensation and time-off for skill development</li> <li>• Provide basic and vocational skill training for employees that starts with a training needs analysis of employees' basic skills gaps</li> <li>• Enrich jobs by designing them with activities that develop basic skills</li> <li>• Establish partnerships with local schools for on- or off-site adult education programmes or provide other tuition reimbursement programmes</li> <li>• Help develop or fund affordable education centres</li> </ul>	<ul style="list-style-type: none"> <li>• Advocate for other organizations to adopt positive internal or external CSR practices; this can include forming partnerships to share the cost of internal CSR, forming accountability and reporting standards for internal CSR results and sharing best practices</li> <li>• Partner with educational and training experts to provide training and skill development opportunities relevant to the businesses' expertise; target disadvantaged groups</li> <li>• Partner with organizations at the base of the pyramid to promote positive internal CSR and facilitate the costs of skill development initiatives' implementation</li> <li>• Participate in skill-information development by sharing anonymous data about skill needs and skill levels of employees</li> </ul>
<b>INDIVIDUAL BARRIERS TO LEARNING</b>	<b>Promote education and training among undereducated groups</b>	
	<ul style="list-style-type: none"> <li>• Develop and implement language and other transitional living programmes</li> <li>• Develop and implement continuing skills training for members of the population falling below the poverty line</li> <li>• Offer counselling services to help cope with workplace integration</li> <li>• Develop employee training within the organization that incorporates not only cognitive and vocational aspects but also other noncognitive skills such as values and work ethic</li> </ul>	<ul style="list-style-type: none"> <li>• Host community career fairs that emphasize the importance of the noncognitive skills required for the workplace as well as cognitive and vocational skills</li> <li>• Encourage local communities to participate in vocational and social courses; Maersk in Chile, for example, offers psychological tests and support as part of training programme</li> </ul>
<b>LACK OF KNOWLEDGE ABOUT SKILLS POSSESSED BY THE POOR</b>	<b>Promote and fund understanding of skills possessed by the poor</b>	
	<ul style="list-style-type: none"> <li>• Collaborate with national agency to find out potential of workers by using surveys</li> <li>• Provide testing to youth to identify those with skill potential (followed by vocational training noted above for those exhibit sufficient skills)</li> <li>• Map out the skills needed to perform certain jobs in the workplace and train persons within the organization to ensure career advancement and development</li> </ul>	<ul style="list-style-type: none"> <li>• Fund basic research to develop tools helping identify potential of workers</li> <li>• Partner with governments to provide communities with development training such as the importance of developing skills maps for the communities that can be shared with and compared with skills required for jobs in the community. This can serve as the basis for developing appropriate training programmes that can be supported by both public and private sector</li> <li>• Support the development of databases of occupational information such as knowledge, skills, attributes and other characteristics using best case models from more developed countries and contextualizing these to the local environment</li> </ul>
<b>VOCATIONAL SKILLS GAP</b>	<b>Provide or fund vocational training</b>	
	<ul style="list-style-type: none"> <li>• Fund vocational training</li> <li>• Create internal opportunities to train employees</li> </ul>	<ul style="list-style-type: none"> <li>• Support organizations that provide vocational training by providing opportunities for workplace-based learning, internships, summer jobs, mentoring and employee shadowing</li> <li>• Create mentoring projects to identify and train local talent that may be absorbed into the company (future hires)</li> <li>• Create an online learning platform; provide mentorship and business acceleration mechanisms; provide business opportunity set (investment, networking in ecosystem)</li> <li>• Collaborate to expand entrepreneurial education</li> </ul>





	SOCIAL ENTERPRISE	INCLUSIVE BUSINESS	MAINSTREAM BUSINESS
	<b>Adapt business model to address skills gap</b>		
	<ul style="list-style-type: none"> <li>• Develop affordable online training programmes for companies' workers operating in a specific sector to reduce costs per worker for individual companies</li> <li>• Develop public-private partnerships with relevant government agencies (including technical agencies in fields relevant to the company) to provide skills development programmes</li> <li>• Manage community learning centres that can take membership from other companies as well as qualify for government incentives or subsidies</li> <li>• Develop or fund affordable education centres</li> <li>• Use government subsidies or other incentives to offer continuing education or other foundational skill development</li> </ul>	<ul style="list-style-type: none"> <li>• Target lower income families through affordable schools. For example, a chain of affordable private schools in Africa, targeting students from low income communities. These schools are located in urban and rural low income communities and constructed with a low-cost construction model and standard designs</li> <li>• Provide capacity training and transfer skills to the producers, retailers and distributors in the value chain of the companies; training can include financial literacy, basic business skills, retail management (for retailers) and so on based on demand</li> <li>• Use government subsidies or other incentives to offer continuing education or other foundational skill development</li> </ul>	
	<b>Promote education and training among undereducated groups</b>		
	<ul style="list-style-type: none"> <li>• Develop innovative training programmes targeted specifically at developing the self-efficacy of marginalized populations</li> <li>• Create online train-the-trainer courses designed for implementation at the base of the pyramid and that emphasize the importance of, and ways to improve, working conditions conducive to empowerment</li> </ul>		
	<b>Leverage knowledge about skills gathered through ancillary activities</b>		
	<ul style="list-style-type: none"> <li>• Collect data on base-of-the-pyramid producers, distributors and customers to better understand their value chain and measure performance</li> <li>• Introduce systematic mechanisms to connect suppliers and users of skills at an individual or organizational level</li> </ul>	<ul style="list-style-type: none"> <li>• Develop labour and employment data to better understand undervalued labour force</li> <li>• Perform company-based cost-benefit analyses estimating the gains for different forms of skill training, emphasizing sectors and locations with employees who fall below the poverty line</li> </ul>	
	<b>Develop education infrastructure</b>		
	<ul style="list-style-type: none"> <li>• Develop self-funded schools or affordable training centres</li> <li>• Develop business-led initiatives bridging the gap among school, work and society</li> </ul>	<ul style="list-style-type: none"> <li>• Provide tertiary-level schooling focusing on technical skills—for example, one university in Colombia targets low socioeconomic status groups, has a curriculum that is vocationally oriented, and focuses on aligning offerings with key productive sectors in Colombia</li> </ul>	<ul style="list-style-type: none"> <li>• Provide knowledge transfer by global firms in host country</li> <li>• Develop curricula together with educational institutions; temporary public-private partnership skills development programmes; funding of equipment at schools; inclusion of trainees</li> </ul>



## 4. SKILL BARRIERS AND OPPORTUNITIES

### Notes

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- 53 World Bank 2012b.
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- 55 World Bank 2014b.
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## **5. SOCIAL BARRIERS AND OPPORTUNITIES**



Social barriers to reducing poverty, although often overlooked, are crucial to transformative change efforts. They include attitudes, beliefs and behaviours that devalue people living in poverty. Individual-focused attributions for class position equate economic security with personal merit and effort—and poverty with laziness and a lack of interest in self-improvement. Cognitive biases make structural sources of inequality difficult to “see.” Prejudices against racial, ethnic, gender, religious and low income groups limit opportunity. Intergroup differences in power and privilege make forging strong cross-class alliances difficult.

Classism, a major obstacle to reducing poverty, is a network of attitudes, beliefs, behaviours and institutional practices that recreate and legitimize class-based inequalities that systematically advantage middle and high income groups over poor and working class people.<sup>1</sup> It encompasses prejudice (negative attitudes towards poor and working-class people), stereotypes (widely endorsed, socially sanctioned beliefs about the poor and working class people) and discriminatory behaviours and practices that distance, avoid or exclude poor and working-class persons.<sup>2</sup> Classist prejudices, stereotypes and behaviours are interrelated and may occur together, but they also operate independently. For example, classist stereotypes and behaviours may co-occur, but it is also possible for an individual to strongly endorse classist stereotypes and never act on them.

Classist discrimination takes many forms and occurs in many different contexts. One context is interpersonal, through one-on-one interactions that distance or devalue low income individuals and groups.<sup>3</sup> Another is institutional, through restricted access to valued resources, such as high-quality healthcare, safe housing, education, business opportunities and secure well-paying employment.<sup>4</sup> Classism involves partial or full exclusion from citizenship rights, the labour market and cultural and social institutions.<sup>5</sup> Ranging from subtle to blatant, classism can be covert, such as ignoring or not making eye contact with an individual due to her or his socioeconomic status.<sup>6</sup> Or it can be overt, such as verbal putdowns, refusing to hire someone or denying medical care based on the ability to pay for services. Even seemingly overt classism may be difficult for privileged groups to recognize as problematic because society’s devaluation of the poor makes mistreatment and exclusion common.

Fundamentally, classism is about power and oppression. Class-based power is the “power to fulfil basic needs, to restrict access to basic resources, and to resist forces of destitution.”<sup>7</sup> The rest of this chapter focuses on illuminating class-based power dynamics, the inhibiting effects of classist beliefs and behaviours on transformative economic growth and strategies for dismantling classism in its many forms. Attention is directed towards understanding classism, but it is important to note that classism intersects with racism, sexism and other forms of discrimination, frequently blurring distinguishable boundaries between biases.



## THE IMPORTANCE OF LEGITIMIZING BELIEFS IN JUSTIFYING POVERTY AND SOCIOECONOMIC INEQUALITY

Beliefs about social class and economic mobility are foundational to understanding responses to economic inequality and poverty. Indeed, a central facet of classism is “the systematic as-signment of characteristics of worth and ability based on social class.”<sup>8</sup> Analysis of ideology surrounding class status lends insights into devalu-ing the poor, privileging nonpoor groups and the far-reaching consequences of these biases.

**“No persisting structure of economic and social inequality has existed in the absence of some kind of meaning system(s) which seek both to explain and justify the unequal distribution of societal resources.”<sup>9</sup>**

### Beliefs about social class, individualism and meritocracy

Social class unlike gender, race and ethnicity is often believed to be earned rather than ascribed.<sup>10</sup> As a consequence, poverty and wealth are frequently misperceived as largely under personal control and a reflection of individual motivation and effort rather than the result of complex structural and economic factors. A Pew Charitable Trust poll illustrates this tendency.<sup>11</sup> More than 80% of US respondents rated individual factors such as hard work and ambition as primary sources of class mobility. And while access to education was also viewed as central, fewer than half regarded growing up in a “good” neighbourhood as important.<sup>12</sup> Respondents also believed that a young person with drive, ambition and creativity who grows up in a poor neighbourhood is more likely to succeed than someone raised in a wealthier neighbourhood without these characteristics.<sup>13</sup> These perceptions stand in sharp contrast to research showing that economic mobility is influenced by context, varying considerably by state, locality and neighbourhood.<sup>14</sup> Even so, belief in individual control over class status persists, appearing to thrive in societies in which opportunities for upward mobility are viewed as widespread.

Individualism reinforces understanding class as an earned status and poverty as a reflection of personal shortcomings. Emphasizing personal responsibility for success and failure, it is embedded in understand-ing human behaviour as independent, freely chosen and contingent on personal preferences.<sup>15</sup> By contrast, collectivism and collective models of human behaviour emphasize interdependence, connection and shared responsibility.<sup>16</sup> Individualism and collectivism, though often conceptualized as opposites, are better understood as worldviews that emphasize the salience of different issues and values.<sup>17</sup>

Cross-cultural research documents the prominence of individualism in the United States, Australia and some European countries, and greater collectivism in Latin America, Africa and eastern nations such as China. Note that both collectivism and individualism can coexist, and that considerable diversity of beliefs is present within any given country or region.<sup>18</sup> An analysis of 15 African countries illustrates these complexities with 46% of respondents endorsing the belief that “each person should put the well-being of the community ahead of their own interests” and 50% that “everybody should be free to pursue what is best for themselves as individuals.”<sup>19</sup> Cape Verdeans and Batswana expressed strong individualism while Malians and Senegalese were more communal.<sup>20</sup>



Individualism also appears to be more prominent in wealthy, industrialized countries than in “developing” countries.<sup>21</sup> Although causality is difficult to determine, national wealth is posited to facilitate increased cultural individualism, with discretionary capital and affluence driving increased social independence.<sup>22</sup> The consequences of individualism are far-reaching, extending to cognition, emotion, self-concept, values and intergroup relations.<sup>23</sup> In intergroup relations, individualism may encourage greater competitiveness, a focus on self rather than others and resistance to working in teams.<sup>24</sup>

Complementing individualism, meritocracy refers to the belief that people “get ahead and earn rewards in direct proportion to their individual efforts and abilities,” with wealth, jobs and other valued resources distributed based on merit (such as intelligence, effort and education) rather than gender, ethnicity or family socioeconomic status.<sup>25</sup> Meritocracy is widely idealized as fostering social mobility and as bias-free because those who rise to the “top” of the class structure are assumed to have done so based on their ability and

effort without unearned advantage.<sup>26</sup> By the same token, failure to excel is viewed as reflecting lack of effort.<sup>27</sup> Implicit in meritocratic ideology is the assumption of a “level playing field” or that all “players” have an equal chance to succeed, with talent and drive setting people apart rather than structural barriers to economic opportunity.

Considerable variation exists in the extent to which meritocracy is embraced as a societal ideal, social mobility occurs in a given society and individuals believe

**Meritocracy is widely idealized as fostering social mobility and as bias-free because those who rise to the “top” of the class structure are assumed to have done so based on their ability and effort without unearned advantage.**

that upward mobility is possible. Public opinion polls such as the Latinobarómetro, Eurobarometer and Afrobarometer are important sources of information for gauging these beliefs. For instance, analysis of the 2000 Latinobarómetro reveals considerable scepticism among Latin Americans about meritocracy and mobility experiences.<sup>28</sup> Seventy-four percent of respondents regarded opportunities to overcome poverty as unequal and only slightly more than half (53.8%) believed that hard work guarantees success.<sup>29</sup> For perceived socioeconomic mobility, 47% of respondents placed their parents and themselves as sharing the same status, while 33% perceived themselves as having experienced downward mobility.<sup>30</sup> Only 20% of respondents believed that they had surpassed their parents’ position. Expectations for future upward mobility tend to be stronger. In 2013, more than 40% of Latin Americans in 14 countries expected their personal economic situation to improve in the future.<sup>31</sup> Similarly, optimism for the future was found in 15 African countries with respondents expecting their children to move out of poverty and up the socioeconomic ladder.<sup>32</sup>

One reason that beliefs about mobility are important is their relationship to support for poverty reduction efforts. Specifically, support for redistributive policies may be weaker when upward mobility is perceived as being individually controlled and readily possible—and stronger when avenues to upward mobility are perceived as blocked. A study of Latin American countries found strong support for income redistribution among those who expected their children to be worse off than themselves.<sup>33</sup> Additionally, those who perceive the economic distribution as unfair are also more likely to be dissatisfied with their current and future economic prospects.<sup>34</sup>

Meritocratic beliefs do not necessarily align with real opportunity, a point amply illustrated by the United States, a country that ranks high in endorsement of meritocratic ideology but low in upward mobility. In





one international study, about two-thirds of US respondents—the highest percentage of the 27 countries surveyed—agreed with the statement “people are rewarded for intelligence and skill.”<sup>35</sup> In another poll, 68% of US respondents reported that they had achieved or expected to achieve the “American dream,” and 54% believed they would be better off within the next 10 years.<sup>36</sup>

Mobility rates tell a different story, however. There is a stronger connection in the United States between parental education and children’s economic, educational and socioemotional outcomes than in the United Kingdom, France, Germany, Sweden, Italy, Australia, Finland, Denmark and Canada.<sup>37</sup> Notably, 43% of Americans who grow up in the bottom quintile remain there as adults, and 70% never rise to the middle class.<sup>38</sup> Race, educational attainment and number of household earners all influence the likelihood of moving out of the bottom quintile of earners, with whites, the college educated and families with multiple earners more likely to be upwardly mobile than African Americans, those without a college education and single earners.<sup>39</sup> Thus, in some nations, belief in meritocracy appears to be stronger than rates of mobility warrant.<sup>40</sup>

Ultimately, individualism and meritocratic beliefs can be characterized as system-justifying beliefs because of their potential to legitimize economic inequality and maintain the status quo. According to system justification theory, “people are motivated to justify and rationalize the way things are, so that existing social, economic and political arrangements tend to be perceived as fair and legitimate.”<sup>41</sup> System justification occurs through stereotyping, the endorsement of particular ideologies, the legitimation of institutions and policies, rationalization and the denial or minimization of structural problems and inequalities.<sup>42</sup>

The mismatch between objective (income, education) and subjective rankings of social class brings system justification into sharper focus. While poorer individuals have been found to sometimes self-identify with a higher class ranking than is indicated by objective indicators, richer individuals may underestimate their position in relation to objective status.<sup>43</sup> An analysis of 16 Latin American countries revealed the wide range of factors other than income that underlie self-assessments of class status.<sup>44</sup> Completing secondary education, owning a car, washing machine, television and freezer and having access to running water, a telephone and financial services all increased the odds that a poor person identified as middle class.<sup>45</sup> Lacking a computer and having limited education raised the odds that a rich person identified as middle class.<sup>46</sup> The tendency to overidentify with the “middle class” may play a role in justifying the status quo and reduce support for poverty reduction initiatives.

Motivations for endorsing system-justifying beliefs are diverse, ranging from a general tendency to rationalize the status quo to enhancing one’s sense of self to desiring cognitive consistency to protecting an advantaged position within the social hierarchy.<sup>47</sup> Both advantaged and disadvantaged groups engage in system justification, if to varying degrees and guided by potentially different motives. For advantaged groups, system justification may help maintain a positive self-concept and preserve perceived adherence to dominant social values. For example, strongly meritocratic European Americans denied racial inequity in order to continue seeing themselves as meritorious and their own advantaged position as deserved.<sup>48</sup> Minimization is illustrated by the finding that 65% of financially secure Europeans believed that poverty is widespread compared with 90% of European respondents who have difficulty making ends meet.<sup>49</sup> The downside of this adherence is that privilege remains unquestioned, and support for social change and redistributive efforts limited.

Members of disadvantaged groups may also engage in system justification despite seeming to run against self-interest or producing negative group consequences. But system-justifying beliefs can serve as a self-pro-



tective function in the face of economic hardship. Individualistic beliefs, for instance, may allow low income individuals to maintain a sense of self-efficacy in their ability to exit poverty rather than feel overwhelmed by structural obstacles to upward mobility.<sup>50</sup> Even so, such beliefs may still extract a high “price” by diminishing participation in collective mobilization, decreasing identification with other disadvantaged group members and reducing support for antipoverty initiatives.<sup>51</sup>

### Other core system-justifying beliefs

Individualism and meritocratic ideology are part of a larger network of system-justifying beliefs, including the economic system justification, belief in a just world, individualistic attributions for poverty and wealth, and classist, racist and sexist stereotypes. Correlations among these beliefs are amply documented in the United States and other societies, reflecting their shared ideological function—to legitimize existing social and economic relationships and systems.

*Economic system justification.* Economic system justification refers to the belief that inequality is natural and inevitable—and that economic outcomes are just and deserved.<sup>52</sup> Reviewing the items social scientists use to measure support for it lends insight into the nature of these beliefs. For example: “Laws of nature are responsible for differences in wealth in society”; “It is virtually impossible to eliminate poverty”; “Social class differences reflect differences in the natural order of things”; and “Economic positions are legitimate reflections of people’s achievements.”<sup>53</sup> Support for economic system justification and related constructs have been found to be stronger among higher status (European Americans, higher income groups) than lower status groups (African Americans, low income groups).<sup>54</sup> Support is associated with political conservatism and rejection of public assistance programmes and policies that target economically and socially disadvantaged groups.<sup>55</sup>

*Belief in a just world.* Belief in a just world is predicated on the assumption that the world is a fair, predictable place in which people get what they deserve.<sup>56</sup> Among strong just-world believers, poverty and other hardships may challenge one’s sense of fairness, and to protect this worldview, responsibility for negative outcomes may be attributed to the individual.<sup>57</sup> For example, researchers asked participants to read a vignette describing a hypothetical mother named Lisa who was struggling financially.<sup>58</sup> The vignettes varied in terms of Lisa’s demographic characteristics (such as marital status and immigration status), barriers to employment and the effort put into moving out of poverty (such as looking for work and trying to improve job skills). The greater Lisa’s efforts to improve her situation, the less deserving of government assistance she was judged to be.<sup>59</sup> But this was the case only for strong believers in a just world. The findings highlight the psychological threat poverty poses to strong believers in a just world, particularly when overt exit efforts are being made—and the use of distancing and derogation to maintain a sense of fairness.<sup>60</sup> Not surprisingly, belief in a just world is positively associated with individualistic explanations for poverty and a tendency to blame the victim.

It is informed by diverse factors and motivations, and serves other functions as well.<sup>61</sup> In a study of adult and adolescent earthquake survivors in a high poverty area of China, belief in a just world was found to be associated with resilience.<sup>62</sup> The researchers speculate that belief in a just world may promote acceptance of uncontrollable events such as natural disasters as well as poverty and economic hardship. Importantly, such findings make clear that system-justifying beliefs are a double-edged sword, as both a coping mechanism and a deterrent to collectively challenging the status quo.



*Attributions for poverty and wealth.* Causal attributions for poverty are yet another type of system-justifying belief. Explanations for poverty and wealth fall into three general categories: individualistic, structural and fatalistic.<sup>63</sup> Individualistic attributions for poverty (laziness, lack of motivation, an antiwork mentality) and wealth (risk taking, intelligence, perseverance) are considered legitimizing beliefs. Both emphasize the role of personal merit in economic status, if in very different ways, with low income groups positioned as “undeserving” failures and the wealthy as “deserving” of their status. Individualistic attributions are positively correlated with other legitimizing beliefs (belief in a just world, meritocracy) and negatively with support for antipoverty policies and spending on the poor.<sup>64</sup>

Structural explanations for poverty (low wages, discrimination, underfunded schools) and wealth (connections, privilege, inheritance) challenge the status quo and are considered hierarchy attenuating beliefs. Structural attributions are correlated with increased support for increased spending on the poor and antipoverty policies, and reduced support for legitimizing ideologies.<sup>65</sup> Fatalistic explanations draw attention to factors beyond individual control; for poverty, unfortunate circumstances (bad luck, a disability) and for wealth, positive events (winning the lottery).

Patterns of support vary across countries and demographic groups, underscoring the complexity of attributions for poverty and wealth and the influence of sociopolitical culture and group membership on these beliefs. Among European Union countries, more developed countries favour individualistic and fatalistic causes for poverty, whereas less developed countries emphasize social injustice.<sup>66</sup> Poverty beliefs in Western European nations tend to be more structural than in the United States.<sup>67</sup> In one comparison of beliefs about poverty and wealth in the United States, West Germany, the Netherlands, Hungary, the Czech Republic and the Russian Federation, 71%–83% respondents in postcommunist societies believed that wealth is obtained through dishonest means whereas less than half of western respondents endorsed this belief.<sup>68</sup> In Latin America, poverty is mainly attributed to external circumstances rather than a lack of hard work.<sup>69</sup> Similarly, among Sub-Saharan Africans from Nigeria and South Africa, poverty was more likely to be attributed to unfairness in society (71.3%) than laziness (28.1%).<sup>70</sup>

**Patterns of support vary across countries and demographic groups, underscoring the complexity of attributions for poverty and wealth and the influence of sociopolitical culture and group membership on these beliefs.**

But it is a matter of knowing not simply the beliefs that dominate in a particular society but also the demographic patterns of beliefs within societies. In the United States, more powerful groups (men, European Americans, higher income groups, political conservatives) tend to endorse individualistic explanations for poverty more strongly than structural attributions. Less powerful groups (women, African Americans, low income groups, political progressives) tend to favour structural causes for poverty over individualistic attributions.<sup>71</sup> In a comprehensive 49 country analysis, respondents who self-identified as politically on the left, believed in the need for greater equality, and/or perceived themselves as having low socioeconomic status, were also more likely to perceive poverty as chronic.<sup>72</sup> Other studies also support these trends. In European Union countries, individuals experiencing greater economic hardship attributed poverty to social causes more strongly than those who were financially and socially secure.<sup>73</sup> Broader economic trends are influential as well with poor people in wealthier Latin American countries more likely than other groups to perceive the distribution of resources as unfair.<sup>74</sup>



The endorsement of individualistic beliefs by those with greater social, political and economic power (and potentially greater distance from poverty) has important implications for the potential institutionalization of these beliefs and for intergroup relations. Support for individualistic attributions for poverty is associated with restrictive welfare policies and reduced spending on social welfare programmes. An analysis of 363 policy-makers in Africa, the Arab states, Asia and the Pacific, Europe and Central Asia, and Latin America and the Caribbean found that 63% accepted income inequality if it was due to differences in individual efforts and if it was grounded in fair competition.<sup>75</sup> Forty-three percent of respondents regarded increasing inequality as acceptable if a guaranteed minimum standard of living was in place, and 39% accepted growing income inequality if poverty was decreasing.<sup>76</sup> Although access to healthcare (51%) and justice (57%) was perceived as unequal, only 28% of policy-makers reported high inequality in access to public administration services, 37% perceived high inequality in access to education and 41% regarded access to services related to economic activity as unequal.<sup>77</sup>

*Classist, racist and sexist stereotypes.* Undergirded by individualism, meritocracy and other system-justifying ideologies, classist stereotypes portray people affected by poverty as lazy, lacking intelligence, disinterested in education and self-improvement, unable to defer gratification and as holding morals and values that clash with mainstream society. Low income groups are more likely than their middle-class counterparts to be perceived as engaging in criminal behaviours and be described as lazy, immoral, dirty and stupid.<sup>78</sup> The poor are well aware of their devalued status, bearing both the burden of economic hardship and its stigma.<sup>79</sup> Classist stigma is so strong that in a study of 17 stereotyped groups, only welfare recipients were both disliked and disrespected, uniquely perceived as lacking warmth and competence.<sup>80</sup>

Classist stereotypes operate independently and intersect with other biases. Intersections of classism, sexism and racism are evident in stereotypes of welfare recipients, particularly single mothers, as lazy, sexually available, irresponsible parents who choose to receive public assistance rather than work outside the home. Intersecting classist and racist stereotypes portray welfare recipients as lacking a strong work ethic and sexist beliefs about single mothers depict poor women as devaluing marriage and two-parent families.<sup>81</sup> These beliefs are borne out in antiwelfare attitudes and treatment of low income women when they seek support.<sup>82</sup>

Stereotyping constitutes a form of “othering”—a process that involves constructing one’s identity in opposition to believed differences from others.<sup>83</sup> Whether intentional or unintentional, othering both reinforces and reproduces positions of domination and subordination.<sup>84</sup> “Treating poor people as other and lesser than oneself is central to the concept and practice of classism. Through cognitive distancing and institutional and interpersonal discrimination, the nonpoor succeed in separating from the poor and in excluding, discounting, discrediting and disabling them.”<sup>85</sup> Not surprisingly, financially vulnerable people are more likely to report feeling left out of society than people who are financially secure.<sup>86</sup> Experiences of and responses to social exclusion are likely shaped by the economic systems and interdependencies on which communities and societies are based.<sup>87</sup>



## COGNITIVE BIASES

Cognitive biases make challenging classist beliefs especially difficult. Even when presented with information that contradicts dominant stereotypes, people are more likely to recall information that supports their pre-existing beliefs rather than newly introduced, counterstereotypical information.<sup>88</sup> For instance, after viewing a videotaped vignette, white respondents were less likely to accurately recall the race of a white than an African American welfare recipient.<sup>89</sup> Information may even be misremembered to maintain consistency.

Illusory correlations—the perception of relationships between phenomena when, in fact, they are limited or nonexistent—are also common. It helps explain why highly sensationalistic news stories about poverty may serve as fodder for stereotypes about the poor, contributing to the overestimation of poverty with negative behaviours such as fraud. For example, a British survey found that respondents believed that £24 of every £100 of benefits is fraudulently claimed but official estimates are 34 times lower at only 70 pence in every £100.<sup>90</sup>

In western countries, the fundamental attribution error helps explain the tendency to make individualistic rather than structural attributions for poverty. It refers to the tendency to “underestimate the impact of situational factors and to overestimate the role of dispositional factors in controlling behavior.”<sup>91</sup> Generating situational explanations for negative outcomes may require greater effort than constructing individual-focused explanations, meaning that a greater cognitive load is associated with situational than individualistic attributions.<sup>92</sup>

## INTERGROUP RELATIONS AND POWER DYNAMICS IN THE WORKPLACE

Fundamental intergroup processes, notably the social categorization of diverse groups into “ingroups” and “outgroups,” separate the poor and nonpoor from each other physically, socially and economically.

Power asymmetries allow these alleged class differences (communicated through stereotypes and other legitimizing-myths) to harden into distinct, enforceable boundaries, concentrating political voice and other valued resources among elites.

**“Class is likely to function as a status characteristic within organizations such that class differences carry with them performance expectations that generate ‘self-fulfilling effects on people’s behavior and judgments of one another, creating a corresponding influence hierarchy among them.’ ... As a result, lower class individuals will be judged to be less competent than higher class ones (simply because of their social class).”<sup>93</sup>**

The workplace offers one example of the enforcement of class-based boundaries in the private sector. Workplaces are often highly class segregated and even socioeconomically diverse businesses frequently separate workers from one another based on social class either by location, building, meeting spaces (separate entrances, different eating areas for workers, distinct “staff” versus “professional” meetings), work hours (having janitorial staff clean at night when other workers are not present) and benefits (retirement packages,



accrual of vacation time, flexible hours). Although some functional reasons for these practices may exist, they nevertheless reinforce separation and convey powerful messages about status, autonomy and “belonging” in the workplace.

Classist, racist and sexist stereotypes prevent low income workers from being hired and staying employed. Women, in particular, may be perceived as less dependable workers because of assumed childcare and parenting responsibilities. Pregnancy discrimination is a major problem. Common forms of pregnancy discrimination include testing and interviewing job applicants to determine their pregnancy status, denying jobs to pregnant applicants and firing or mistreating pregnant workers to encourage their resignation.<sup>94</sup> Moreover, a history of unemployment, particularly for longer periods of time, may be stigmatized and perceived as a marker of failure, contributing to a vicious cycle that makes it difficult to be hired.<sup>95</sup> Receiving public assistance carries its own negative associations of poor work ethic, with people of colour particularly vulnerable to stereotyping and discrimination. In a study of hypothetical hiring decisions, welfare recipients and African Americans were less likely than nonrecipients and whites to be recommended for an administrative assistant position than for a fast food cashier position.<sup>96</sup> In another investigation, Black men were half as likely as equally qualified white men to receive a return call or job offer for a low-wage position.<sup>97</sup> Indigenous people are also the frequent targets of bias in the workplace. For example, interviews with 550 business owners in Guatemala City revealed that on average only 12% of employees in small and microenterprises were indigenous people, and just 20% of employees in medium and large businesses.<sup>98</sup> Moreover, slightly more than half the business owners interviewed (52%) reported that they did not pay mixed ancestry and indigenous people the same wages for the same work as other employees.<sup>99</sup>

Collectively, these findings highlight some of the biases in gaining employment that face low-wage workers, particularly women, people of colour and indigenous people. Although the focus is on power dynamics in the workplace, discrimination in other contexts (housing, education, healthcare) also limits employment opportunities and workforce participation.

### Gender inequality and sexism

Gender inequality is a major driver of high rates of poverty around the world. Discrimination, limited access to resources (such as education, property and healthcare), segregation into low-paid, devalued jobs, inequities in family and household responsibilities and violence all contribute to disproportionately high rates of poverty among women.<sup>100</sup> The scope of disparities is far-reaching, with poor rural women less likely than urban rich women to receive care from a skilled health professional during childbirth,<sup>101</sup> and women around the world continuing to struggle for basic legal rights and protections.<sup>102</sup> In the national constitutions of 191 UN member states, “women are explicitly guaranteed some aspect of equality in 81% of constitutions, some aspect of political equality in 32%, marital equality in 27%, some aspect of work equality in 26% and educational equality in just 9% of constitutions.”<sup>103</sup>

Much of the systematic gender differences in material well-being are due to the composition of social, economic and political hierarchies: “Social norms, cultural traditions, patriarchal attitudes and ideology, gender stereotypes and discrimination ... are at the root of gender-based social inequalities that benefit men and boys [over women and girls].”<sup>104</sup> Gender stereotypes characterize women and men as fundamentally different from each other. Men are stereotyped as aggressive, agentic, physically strong, analytical and better suited for political and workplace leadership, whereas women are stereotyped as nurturing, communal, emotional and



better suited for family and home.<sup>105</sup> The perpetuation of such norms maintains women's subordinate status in society and heightens the vulnerability of girls, influencing their access to resources and by extension their livelihoods and agency.

Sexist attitudes and beliefs, while showing variability in strength and form across nations and across racial, ethnic and religious groups, persist around the world and share a core devaluation of women.<sup>106</sup> Even seemingly "positive" stereotypes obstruct gender equality. Benevolent sexism, which encompasses paternalistic beliefs (women require protection), complementary gender differences (women have skills in domestic or caregiving arenas that men typically do not possess) and idealized beliefs about heterosexual relationships, justify and maintain patriarchal social and economic structures.<sup>107</sup> Sexism fuels the practice of treating caregiving and household labour as under- or uncompensated, a tradition that greatly increases women's vulnerability to poverty. Benevolent sexism and overtly hostile sexist beliefs are system justifying and maintain the legitimacy of the gender inequities.<sup>108</sup> Moreover, even if they are not personally endorsed, gender stereotypes influence household dynamics, workplaces and labour markets and educational and legal systems.<sup>109</sup> For example, employers in capital-intensive firms may be unwilling to hire women if they predict they will have to leave the labour market due to pregnancy or care responsibilities, reflecting the employer's view that it will see a greater return on investment in worker training if focused on men.<sup>110</sup>

Parents, peers, media, schools and other institutions communicate gendered beliefs about skills, competencies and characteristics of women and men. Basic gender stereotypes develop by age 3.<sup>111</sup> Children and adolescents tend to hold the same beliefs as their parents, illustrating the important role of families in gender socialization.<sup>112</sup> Schools also play a pivotal socializing role, both challenging and reinforcing gendered inequalities. Although considerable progress has been made in reducing global gender inequality in total years of education, significant obstacles remain.<sup>113</sup> Female Zambian students report being the targets of teachers' derogatory statements about girls' inferior academic performance and that male students receive preferential treatment.<sup>114</sup> Sixty-nine of 105 respondents reported personally experiencing or knowing a girl who had been harassed by a male student.<sup>115</sup> Male dominance is also communicated in more subtle ways such as the underrepresentation of women in textbooks.<sup>116</sup> Outside the classroom, household and caregiving responsibilities fall primarily to girls, leaving less time to pursue their studies.<sup>117</sup>

Female-to-male employment-to-population ratios are increasing, but remain below parity in most countries.<sup>118</sup> And work outside the home does not guarantee that women will exit poverty. A complex interplay of gender role beliefs and discrimination contribute to the persistence of gender segregation in the workplace and women's overrepresentation in vulnerable, informal work. Shut out of

**"Global factories reproduce similar models of organization wherein women dominate the lowest levels both of pay and authority, whereas men occupy most positions of supervisory and managerial rank. ... Indeed, it is the hegemonic capacity of patriarchal norms to define women's labor as not only 'cheap' but socially and economically worthless (and therefore less worthy of equitable pay and other treatment) that makes a gendered labor force so crucial to the accumulation strategies of global capital."**<sup>119</sup>



formal labour market, women in the informal sector have limited opportunities for advancement, few protections and low pay.<sup>120</sup> Moreover, gender segregation remains problematic with women who work outside the home disproportionately employed in low-paying, traditionally “feminine” domains (domestic labour, secretarial work, teaching).<sup>121</sup>

Looking across countries, women’s pay lags behind men’s by between 10% and 30%,<sup>122</sup> and gender inequities persist across women’s life course, including benefits after retirement.<sup>123</sup> Even when women and men perform comparable work or have equivalent levels of education, women tend to be paid less.<sup>124</sup> US female full-time workers earn \$0.77 for every \$1.00 earned by men.<sup>125</sup> This gap widens when race or ethnicity are taken into account, with women of colour particularly hard hit. On average, African American women earn just \$0.64 and Hispanic women \$0.54 for every \$1.00 paid to white, non-Hispanic men.<sup>126</sup> The extent to which the wage gap is perceived as “fair” or problematic is influenced by a wide range of factors including pay expectations, gender role orientation, gender composition of employment and marital, educational and occupational status.<sup>127</sup> Gender stratification theory posits that women’s unequal bargaining power within the household results from women’s lower income relative to men’s, and is a key factor in gender inequality.<sup>128</sup>

Part-time work, often the only option for women with caregiving and other family responsibilities, means lower earnings and an increased risk of poverty in the short run and long run. This problem is vividly illustrated by difficulties facing the predominantly female Chilean agricultural workforce in qualifying for a state pension.<sup>129</sup> Workers must contribute the equivalent of 20 years to the system to be eligible for a minimum state pension. This target would be out of reach for a worker primarily employed during a four-month harvest period, requiring an estimated 60 years of work.<sup>130</sup> In the United States, time spent outside of the paid labour market caring for children or family members results in both lower earnings and Social Security benefits.

In addition to meeting key social justice goals and strengthening intergroup relations, gender equality would strengthen the economy. It is estimated that closing the gap between women and men’s employment rates would boost the United States’ GDP by 9%, the Eurozone’s by 13% and Japan’s by 16%.<sup>131</sup> Per capita income in 15 developing economies would rise by 14% by 2020 and 20% by 2030.<sup>132</sup> And eliminating discrimination against female workers and managers would dramatically increase per worker productivity.<sup>133</sup>

Gender equality thus becomes key to transformative change in other domains, as social practices reflecting female-friendly norms can trigger types of growth that have a strong impact on reducing poverty—for example, by improving child mortality and nutrition. Equally crucial is the full-scale adoption of family friendly policies to reduce work-life conflict. While some private and public employers provide informal accommodations, these are neither sufficient nor institutionalized, with the burden placed on women to request them.<sup>134</sup> Doing so will require not only challenging beliefs about gender, family and work but also social class, race and ethnicity.

## **LIMITED TRUST AND SOCIAL COHESION**

### **Barriers across social classes**

Classist stereotypes and behaviours, whatever their form or motivation, drive wedges between diverse socioeconomic groups. Not surprisingly, low income groups may be reluctant to enter partnerships with higher income groups that not only hold greater social, political and economic power, but also reap the





benefits of policies and practices that create and maintain poverty (low wages, job insecurity, limited educational opportunities, restrictions on land ownership). Higher income groups may distance themselves from low income groups based on classist stereotypes, assuming limited shared interests or benefits of building interclass relations.

Residential, occupational and social segregation reinforce these lines, with negative consequences for individual and societal health and well-being. Low income groups bear the brunt of inequality, but income inequality is problematic across the socioeconomic spectrum. High rates of income inequality are associated with infant mortality and compromised child well-being, mental health issues, reduced social mobility, increased violence and adolescent pregnancy.<sup>135</sup> Less egalitarian societies are also less trusting and less socially cohesive than more egalitarian societies. “That income inequality is related particularly closely to deaths from homicide, accidents (unintentional injuries) and alcohol-related causes also points towards pathways mediated by failing social cohesion.”<sup>136</sup>

Other aspects of reduced social cohesion also bear noting. Rising income inequality is associated with both declining trust in one’s fellow citizens and in the government.<sup>137</sup> “When overall inequality is highest and when the people at the top of the economic ladder fare the best, we become more pessimistic—overall, about our social ties and about our political system.”<sup>138</sup> Collectively, findings in this area reveal how economic inequality erodes social ties and connections, damaging our trust in each other, our health and our social relations.

Concern about declining social trust also may provide an opportunity for building support for redistributive policies. An analysis of data from 40 countries found that perceived social conflict, defined broadly as rising social tensions and the breakdown of societal trust, influenced support for redistribution more than perceptions of fairness and social mobility.<sup>139</sup> These same findings held true even when controlling for potential personal gains or losses from redistribution. Notably, the effects were stronger at lower levels of actual inequality and actual social conflict, leading to the conclusion that “governments and practitioners interested in acting upon inequality need to act quickly when inequality is starting to rise in order to capitalise the support towards redistributive policies.”<sup>140</sup>

## Racial and inter-ethnic conflict

Poverty and economic inequality contribute to increased racial and inter-ethnic conflict, and racism and ethnocentrism deepen poverty. “When other groups are seen as threatening, or engaged in zero-sum competition for limited resources, descriptive and injunctive norms both can be aligned to favor conflict.”<sup>141</sup> Perceived threat, whether “real” (competition for resources) or “symbolic” (threats to values and beliefs), are associated with prejudice and intergroup hostility. Threats come from many sources ranging from competition for land, clean water, jobs, housing and education to the symbolic threats from differences in language, religion and cultural practices. Bias against ethnic and racial minorities, immigrants, indigenous groups and others perceived as taking jobs and drawing on resources is widespread.

Note that “threats” are complex, and may be both symbolic and real. Take language as an example. In a study of stereotyping of immigrants in Switzerland, locals in a German-speaking region perceived German immigrants as posing greater competition and thus as less warm, whereas in a French-speaking region, French immigrants were perceived as posing greater competition and as less warm.<sup>142</sup> But language also functions as a symbolic threat. This is evident in the concern that accommodating Spanish language speakers



erodes US culture. And with education, language may serve a gatekeeping function. For instance, children in francophone Africa who speak French can participate in the education process, while those who do not are excluded.<sup>143</sup> In Latin America and the Caribbean, the majority of indigenous women do not speak the predominant languages, and the availability of translation and culturally appropriate services are limited.<sup>144</sup>

Social psychological research documents that competition over resources incites powerful motives to favour ingroups and derogate outgroups. Ingroup favouritism, the tendency to favour one's own group, involves seeing greater similarity among ingroup than outgroup members. "The extension of trust, positive regard, cooperation and empathy to ingroup, but not outgroup, members is an initial form of discrimination."<sup>145</sup> Perceived disadvantage relative to other racial and ethnic groups can feed outgroup bias. While 45.5% of respondents in an Afrobarometer survey perceived their ethnic group to be equal in socioeconomic status to other ethnic groups, 33.7% perceived their ethnic group as (much) worse off in relation to other groups. Only 20.7% of respondents perceived their ethnic group to be (much) better off.<sup>146</sup> Such beliefs may contribute to racial and ethnic tension and distrust. In another analysis of Afrobarometer data, Africans were more likely to attribute social conflict to economic than ethnic causes, citing "land," "boundaries," "natural resources" and "poverty" before "tribalism."<sup>147</sup> Even so, considerable variability in perceived sources of conflict across African countries was documented.

The economic climate may even influence how race is perceived. In a series of experimental studies examining the effects of economic scarcity, white participants perceived African American faces as "darker" and more "stereotypically Black" when resources were scarce, and this visual misperception was associated with the allocation of reduced resources to African American recipients.<sup>148</sup> One of the researchers concluded that "People typically assume that what they see is an accurate representation of the world, so if their initial perceptions of race are actually distorted by economic factors, people may not even realize the potential for bias."<sup>149</sup>

## **OPPORTUNITIES FOR THE PRIVATE SECTOR**

Poverty cannot be reduced without targeting social development—an area that requires greater mobilization, and more careful deployment, of resources. Today, many poverty interventions, especially in health and nutrition, lack the necessary resources to reach socially marginalized groups.<sup>150</sup> Increased external financial flows are important for promoting social development in low income countries. But social inclusion and empowerment must be prominent on the agenda—and interventions should, within their cultural contexts, challenge biases that impede poverty reduction. Tackling social barriers, as with most poverty indicators, is a long-term investment. Cooperating with local governments and civil society, the private sector can help plan and implement decentralized social programmes.

Adopting international standards is perhaps the first step towards aligning business practices with work that ensures the rights of vulnerable groups in high-risk countries. Perhaps no population fits this description better than international migrants living in poverty—particularly displaced persons. This is a growing population that faces severe challenges that can be addressed through a combination of sustainable and empowering business solutions (box 5.1). Despite their marginalization economically and otherwise, international migrants are a potentially powerful economic force for both their home countries and the countries they have settled in temporarily or permanently.



### BOX 5.1 THE SPECIAL CASE OF INTERNATIONAL MIGRANTS

A particularly vulnerable, and increasingly prevalent, population that can benefit from poverty reduction initiatives are international migrants, including forcibly displaced persons. In 2013, at least 232 million people lived abroad, most of them of working age.<sup>151</sup> In the same year, 51.2 million individuals had been forcibly displaced worldwide as a result of persecution, warfare, violence and human rights violations. These are the highest numbers of migrants and displaced persons on record, and 86% of refugees were hosted in lower income countries.<sup>152</sup> Displaced persons include refugees seeking safety outside of their home country and people seeking refuge within their home countries.

International migrants make up a “diaspora nation” that can make significant economic contributions to their host and home nations through meeting labour market demand and through remittances. When given the opportunity, they can also contribute to organizational health, well-being, competitiveness and prosperity. In an inclusive workplace, diversity of knowledge and skills can be a significant stimulus and advantage for group innovation and creativity over the mid to longer term.<sup>153</sup>

Barriers to outcomes include precarious employment, lower-than-living wages,

and prejudice and discrimination in job selection and advancement,<sup>154</sup> even against the relatively skilled.<sup>155</sup> This is true for people migrating from a low income country to a high income country and for those moving from one low income country to another. Underemployment often prevents international migrants from putting valuable skills to use,<sup>156</sup> and from developing them further in positive work cycles, in a so-called “brain waste” and subsequent deskilling.

Overcoming these barriers requires a range of flexible and socially responsible macro policy measures, from flexible immigration and temporary visas to job creation and inclusive labour rights.<sup>157</sup> The private sector, through its International Organization of Employers, has been cooperating with the Global Forum on Migration and Development and The Hague Process on Refugees and Migration to explore a range of options to facilitate stronger links between business, migration and development.<sup>158</sup>

Much of the prejudice and discrimination the migrant populations experience occurs in the workplace.<sup>159</sup> But this is also the very place where much can be done through humane work practices. Organizations can apply a range of relatively localized measures to help overcome prejudice and discrimina-

tion, increasing access to decent work, positive work performance cycles and returns on “investment” for migrants and firms alike. These measures include but are not restricted to creating formal job descriptions and job selection processes, providing access to training and development opportunities and implementing processes for fairly appraising, evaluating and rewarding job performance—each addressing unfairness in job access and treatment (chapter 4).<sup>160</sup>

Traditional corporate entities have a tremendous opportunity to encourage integration and transform the lives of international migrants through practices that also make business sense. In addition, social entrepreneurship can reduce the barriers facing migrant populations, including refugees. The social enterprise Hathay Bunano employs women in refugee-hosting areas to produce hand-crafted items while teaching them new skills. Women can earn a wage for their work while strengthening social ties with each other. Meanwhile, the enterprise’s profitability has helped to ensure that it can operate independently of public donors.<sup>161</sup> Another example, the social enterprise Technology for Tomorrow, based in Uganda, employs refugees in the production of goods that address challenges in refugee settings—such as low-cost solutions for feminine hygiene.<sup>162</sup>

The private sector should work within a strong regulatory and accountability framework, complying with international labour standards, creating decent jobs, paying taxes and ensuring they inflict no ecological damage. Using principles of solidarity economics, any accountability framework for the private sector should use existing monitoring mechanisms and human rights commitments and principles in the development agenda, including the indivisibility and universality of rights.

In promoting social integration, the private sector should first identify practices that can have unintended exclusionary effects. Businesses must take care to include all local stakeholders—for hiring or consulting one group at the expense of others can foster grievances among communities, especially in areas of historical



sectarian or ethnic tensions.<sup>163</sup> Sensitive human resource policies can ensure equitable access to jobs. And incorporating local products and services in supply chains can create value for vulnerable parts of the population. The role of the private sector in promoting a sustainable model of production and consumption will be key in terms of access and advancement of clean energy sources, access to water and other resources. And by identifying linkages between core business operations and conflict dynamics, the private sector can adopt due diligence measures that contextualize risk factors. In all, strategic social investment should be an independent activity that in the long run builds on existing capacities and lays out a community hand-over plan.<sup>164</sup>

The private sector should foster a work environment that encourages positive interaction among groups of different ethno-religious backgrounds. This effort may entail the establishment of a common physical space or opportunities within and outside of the workplace.<sup>165</sup> Businesses may sponsor shelters or employee housing that is inclusive, not isolated from local communities, and that provides access to social and cultural facilities. Similarly, they may support the development of school curricula or establish education programmes that aim at developing understanding and shared memory among members of culturally diverse groups. Recognizing the importance of volunteer-based contributions, private foundations can sponsor community-based centres where both local authorities and nongovernmental organizations can engage in cooperative dialogue. And encouraging the use of public space as centres for community life can mitigate the risk of crime and intergroup violence.<sup>166</sup>

Within the framework of corporate responsibility, the private sector can implement and promote changes in attitudes and structures furthering equal and full socioeconomic participation of women and men, including persons with disabilities. It can bridge the gender wage gap that enables equal pay for equal jobs among women and men. It can address the jobs matrix where women keep performing the lowest paid jobs and working in precarious conditions. It can combat discrimination at work. And it can ensure paid parental leave for both men and women to encourage from the onset a shared responsibility of care work (box 5.2).

Companies should also support comprehensive health care coverage for women by respecting reproductive rights, a key step towards strengthening women's autonomy and advancing gender equality. The growing trend of supporting women's entrepreneurship, often through microcredit loans, needs to be assessed with a broader feminist lens. In India, for example, lenders frequently drive women deeper into poverty and debt.<sup>167</sup> If women are not included as decision-makers in their communities, entrepreneurship will not solve the fact that women cannot decide how to spend their earned income because of socially constructed norms.

### BOX 5.2 DEUTSCHE BANK'S MATERNITY COACHING

In 2008, Deutsche Bank introduced a maternity coaching programme that has since grown in popularity. The programme supports the transition of expectant mothers from and back to work. The coaching programme is also offered to the managers of women going on maternity leave, highlighting the benefits of good communication and planning.

Workshops provide a support community for mothers, offering 12–24 months of training to identify participants who may need additional support. During such a timeframe, new mothers tend to question their roles in the labour market. In addition to an antenatal healthcare programme for expectant mothers, the programme also provides antenatal and postnatal stress-relieving exercises like yoga.

By constructing a workplace that is responsive to the needs of parents, companies can help shape less stressful home environments. Strengthening the connection of parents to their workplace also has wider benefits for the private sector. With its maternity coaching programme, Deutsche Bank increased the retention of women who had taken leave.<sup>168</sup>



Businesses should involve local stakeholders in formulating and following up on programmes. They can increase financial support for marginalized group's rights organizations and movements. They can involve local stakeholders—including the women's organizations that have been active in the respective communities—in programme design and implementation to contribute to more effective, impactful work (box 5.3). Such collaborations can expand local capacity development and partnership, further strengthening existing work and organizations. And they can produce better monitoring mechanisms, allowing for the integration of best practices and awareness of issues requiring appropriate responses.<sup>169</sup>

The private sector can use both formal and nonformal training to promote vocational skill development that enhances the capacity of marginalized groups, as well as youth, to participate fully in the social and economic decision-making processes in their communities. For businesses operating in areas with visible divisions, organizing awareness campaigns around the importance of workplace diversity to sustainable development also can promote changes in intergroup attitudes. At both the community and corporate levels, the private sector can cooperate with multilateral organizations to establish programs that foster skills in conflict resolution among local leaders and workplace supervisors.

Businesses at large can promote small-scale enterprises, which provide vulnerable sections of the population with employment while producing a surplus for reinvestment. For the private sector, these enterprises can eventually act as suppliers, laying the foundations for a domestic economic structure. Their ability to strengthen individual autonomy and plural processes makes small-scale enterprises a critical part of social enfranchisement and by extension, poverty reduction.<sup>170</sup> The private sector can also facilitate exchanges for young people, and traineeships can enhance their social entrepreneurial skills and sense of initiative. Promoting cooperatives and creative enterprises can help vulnerable communities gain access to finance, support services and mentoring possibilities.<sup>171</sup>

### BOX 5.3 TURKCELL'S SNOWDROPS INITIATIVE

The Snowdrops Initiative aims to provide equal educational opportunities to girls unable to continue their education due to the economic disadvantages of their families, and to enable girls to become career-focused and educated individuals. In developing countries, girls' education can break the cycle of poverty. It paves the way for social mobility and inclusion by ensuring access to education and career achievement. And it reverses

negative stereotyping by giving girls grit, self-control and self-esteem. Investment of the private sector in education is especially important for those at the base of the pyramid.

Since the launch of the Snowdrops Initiative in 2000, 100,000 scholarships have been awarded to 29,000 students. Girls from the base of the pyramid are often overwhelmed by more traditional

gender roles, and having an example of those in similar conditions who went on to achieve economic success can help break the pattern of "learned helplessness," injecting motivation and resilience for many girls and their families in rural villages. Girls given access to education and employment often form their own "ingroup" or community and help others escape poverty through solidarity networks.<sup>172</sup>



## 5. SOCIAL BARRIERS AND OPPORTUNITIES

**FIGURE 5.1 OPPORTUNITIES FOR PRIVATE SECTOR ENGAGEMENT IN REMOVING SOCIAL BARRIERS TO POVERTY REDUCTION**

	CSR—INTERNAL	CSR—EXTERNAL	SOCIAL ENTERPRISE	INCLUSIVE BUSINESS	MAINSTREAM BUSINESS
<b>COGNITIVE BIASES</b>	<b>Promote discrimination awareness</b>				
	<ul style="list-style-type: none"> <li>Implement human resource policies that protect against all forms of discrimination in the workplace</li> <li>Provide awareness and education about discrimination in the workplace through internal campaigns</li> <li>Have human resource practices audited by outside stakeholders to ensure they are not unwittingly discriminatory</li> </ul>	<ul style="list-style-type: none"> <li>Communicate internal policies with external stakeholders; ensure that supplier contracts include reference to appropriate codes, policies and so on</li> <li>Sponsor local community and cultural activities that identify and confront cognitive biases through humour and multimedia</li> <li>Encourage employees to be part of volunteer services against class discrimination</li> </ul>	<ul style="list-style-type: none"> <li>Develop business and enterprise models that create opportunities for addressing stigma and bias through productive co-effort</li> </ul>		
<b>GENDER INEQUALITY</b>	<b>Promote gender equality</b>		<b>Compensate for impacts of gender inequality</b>		
	<ul style="list-style-type: none"> <li>Create supportive work environment, mentoring and supervision for all genders</li> <li>Create peer counselling groups for female workers to address barriers created by their social environment (childcare, head of household expectations)</li> <li>Develop skills training programmes to compensate for lower education of females in specific countries and contexts to provide them with equal opportunity for employment</li> <li>Create on-site childcare opportunities</li> <li>Create of on-site skills development opportunities for workers' daughters with incentive programme for enrolment</li> </ul>	<ul style="list-style-type: none"> <li>Fund local organizations to promote and support women in education, employment and leadership roles</li> <li>Create community job-search programmes emphasizing female employment to secure additional female workers and create social messaging emphasizing the value of women in the workforce</li> <li>Present at local schools, emphasizing the role of women in the workforce to affect young boys' and girls' perceptions</li> </ul>	<ul style="list-style-type: none"> <li>Develop affordable services to support women below the poverty line stay in the formal workforce (such as affordable community childcare, services transporting them to and from work, and so on)</li> <li>Use technology to create space for women and create a peer network</li> <li>Create enterprise development to support women as entrepreneurs, access to microfinance, training and markets for production and expansion</li> </ul>	<ul style="list-style-type: none"> <li>Support supply chain opportunities for women; identify and generate new opportunities for promoting the participation of women in mainstream business activities</li> <li>Provide income generation opportunities through value chain development, and support suppliers, distributors and retailers with access to inputs, services and training. Specific to gender equality, some of these models have emphasized including women in development of their microdistribution or retail networks, by explicitly recruiting and supporting women and often have targets in place</li> <li>Engage in "pro-social" hiring, recruitment and pro-social training and development</li> </ul>	
<b>LIMITED TRUST AND COHESION ACROSS SOCIAL CLASSES</b>	<b>Promote understanding and cohesion across groups</b>				
	<ul style="list-style-type: none"> <li>Create diverse teams under the right conditions (such as superordinate goals) to form cooperation and understanding across social identities</li> <li>Create opportunities for shared values across social classes and intercultural groups through cooperative problem solving for workplace outcomes</li> <li>Fund events to improve social cohesion</li> <li>Create and publicize a corporate hiring strategy emphasizing diversity to establish a sense of equal opportunity</li> </ul>	<ul style="list-style-type: none"> <li>Start public campaigns in partnership with other public and nongovernmental organization stakeholders that provide awareness and education about discrimination, bias and the like aimed at removing stereotypes and building trust in the community</li> <li>Fund events to improve social cohesion</li> <li>Cooperate with public diversity programmes in the local community</li> </ul>	<ul style="list-style-type: none"> <li>Alternative business organizations like cooperatives or mutual organization can promote shared, democratic decision-making within the workplace, through rotating chairs, managers, shift supervisors and so on</li> </ul>	<ul style="list-style-type: none"> <li>Support local business initiatives that meet shared needs across social groups</li> <li>Train leaders and management across organization; teambuilding</li> </ul>	
<b>SYSTEM-JUSTIFYING BELIEFS</b>	<b>Promote understanding and cohesion across groups and fight discrimination</b>		<b>Compensate for impacts of system-justifying beliefs</b>		
	<ul style="list-style-type: none"> <li>Organize an event to bind employees together</li> <li>Promote equity programmes and policies within workplace; model best practice throughout organization</li> </ul>	<ul style="list-style-type: none"> <li>Operate apprenticeships and internship opportunities reserved for people affected by poverty that are supported by skill-development initiatives and job opportunities</li> <li>Foster learning culture; encourage cross-cultural interaction through volunteering, workplace giving and leadership development</li> </ul>	<ul style="list-style-type: none"> <li>Increase women's engagement in workforce; challenge the notion that women do not work outside home</li> <li>Develop advertisements to promote job-training programmes in ways that break stereotypes</li> <li>Generate market access and employment activities for poor</li> </ul>	<ul style="list-style-type: none"> <li>Operate targeted hiring and skill development training that identifies high-potential trainees from disadvantaged social identities and train them for jobs in sectors dominated by distinct social hierarchies with social and socioeconomic skills (business networking knowledge and skills)</li> <li>Invest in a less attractive poorer region and employ women, many of whom step into work life for the first time, such as Turkcell's Erzurum Call Center inclusive approach to hiring and strategy</li> <li>Recruit mentors for trainees in the above programme from strategic career positions and social identities (female executives)</li> </ul>	



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## **6. DECISION-MAKING BARRIERS AND OPPORTUNITIES**



Channelling antipoverty efforts through the private sector and refocusing market development towards the base of the pyramid require recognizing those living in poverty as economic actors. Whether producers, consumers or employees, the world's poorest millions might be predicted to make the same economic decisions as the middle class in developing and developed countries.

In fact, however, the decision context that poverty creates is so radically different from that of wealth and comfort that it requires a unique framework for the behavioural economics of poverty. The pervasiveness with which poverty penetrates everyday lives affects decisions not only by narrowing the set of options from which one can choose but also by altering the mindset of the decision-maker. The result is a set of decisions and behaviours that may appear irrational or self-defeating from the point of view of the western or middle-class observer. Yet while the decision-making patterns of the income-poor often play out in self-defeating ways in contemporary developing country contexts, they can be understood as rational when considered as responsive to the situation of poverty. Universal behavioural processes can be triggered or amplified by an environment of poverty in a way that would play out similarly in anyone landing in such a situation.

### THE PSYCHOLOGICAL SITUATION OF POVERTY

Few readers can truly imagine what it is like to live in poverty. Life at less than \$1 a day is having insufficient income to support good quality food and shelter, and facing dysfunctional institutions, exposure to violence and crime, poor access to healthcare and low levels of education. The reality of living in material poverty means the absence of basic provisions such as sanitation, a comfortable bed, good schooling and adequate medicine.

The focus here is on the decision-making consequences of lacking the money to ensure such basic provisions, bearing in mind that this material scarcity leads to, and thus operates within, difficulty in almost all dimensions of one's life. Scarcity in material resources has one obvious consequence for economic decision-making: it constrains the set of options from which one can choose. Examples of the consequences for private sector actors working with those on very low incomes are uncontroversial: a company marketing to the income-poor needs to create a set of product options that are affordable to them, while a business employing those living below the poverty line needs to consider the cost of the daily commute to work.

Less obvious is the effect of this narrowing of options on the mindset of someone living in poverty. Thinking about key aspects of the situation of poverty reveals how being poor can lead one towards a different pattern of decision-making. The narrowing of options reduces the level of control one can have over one's activities, lifestyle and outcomes. Someone living in poverty often has as little say over everyday decisions, such as whether to have chicken or beef for dinner, as over large decisions, such as whether to attend school or which occupation to pursue. The less people feel in control of their lives, the less likely they are to make decisions that might benefit them in future.

For those living in poverty, not having full control over one's activities is accompanied by not having control over one's environment. If one lacks the money to buy a plot of well-irrigated land, one cannot avoid the threat of drought on one's current small patch of land. Similarly, being unable to afford regular medical check-ups leaves one prey to illnesses and infections that can arise unexpectedly. The uncertainty of one's environment, and the consequent unpredictability of future outcomes, characterize life in poverty, and thus shape the psychological situation it creates. They lead to a chronic state of vigilance to threat—a stressed mindset that, if persistent, is harmful both physically and emotionally.



Being poor means not just having scarce resources: it means having far less resources than others in society. Research in the fields of psychology and biology converges on the importance of relative social status for health and well-being. The message from these fields is that being at the bottom of a resource hierarchy induces anxiety, maladaptive behaviours and a sense of low self-worth. If being poor means being concerned about one's social status, in addition to worrying about how to provide for the basic needs of one's family and the challenges of an unpredictable environment, it means having little space left in one's mind for reasoning about one's long-term economic interests. Thus, unlike the rich, the income-poor interact with employers and retailers while being chronically distracted by concerns unrelated to the particular economic decisions at hand.

In sum, there are many demands placed on people living in poverty that are absent in the context of material comfort: demands to come up with money for food and school fees, to deal with the challenges of living in destitute and dangerous places, and to respond to the feeling that one is at the bottom of the societal ladder. Facing such pressures, the mind of anyone could narrow to focus on immediate needs and the avoidance of immediate dangers. Such a shift should lead to decisions and behaviours that address the goals of the here and now quite well. Yet present-biased decisions are likely to backfire as their consequences accumulate over time, undermining the long-term goal of lifting the income-poor out of poverty. As a country develops economically, it moves away from situations in which immediate survival is threatened, to those in which success depends on careful financial planning and the shrewd navigation of increasingly sophisticated markets. Thus, this mismatch between the decision patterns triggered by poverty, and the decision patterns needed to end poverty altogether, becomes increasingly acute.

## POVERTY DEPLETES SELF-EFFICACY

A decreased sense that one is in control of one's life circumstances is likely to have significant consequences for decision-making; but is it a consequence of poverty? This question has been explored most extensively in public health, where researchers are interested in individuals' beliefs about the extent to which they are able to influence their own life outcomes.<sup>1</sup> Though this belief construct has been articulated in different ways, from one's perception that events are driven by forces internal or external to oneself ("locus of control")<sup>2</sup> to one's sense of "personal mastery,"<sup>3</sup> the concept of generalized self-efficacy is one of the most widely used umbrella terms to capture it effectively.<sup>4</sup> In analyses of public health datasets from large US samples, higher socioeconomic status is reliably associated with an increased sense that one is efficacious in performing tasks and in control of one's outcomes<sup>5</sup> while lower socioeconomic status is accompanied by the experience of powerlessness and anomie.<sup>6</sup> Beyond the United States, a strong positive relationship between income and a proxy measure of self-efficacy has been found, both across and within countries.<sup>7</sup> Richer respondents and countries are more likely to believe that their outcomes are determined by themselves rather than fate.

The link between poverty and low self-efficacy is correlational, making it difficult to tell whether poverty reduces self-efficacy or whether low self-efficacy partly causes one to become poor. One set of online experiments supports the first possibility.<sup>8</sup> They aimed to see whether temporarily simulating the experience of poverty would elicit aspects of the psychological situation of poverty even in those who were not poor, highlighting the role of situation in shaping behaviour. The researchers randomly assigned middle income American participants to play a household budgeting game in which they either had a large or a small monthly income, to meet their monthly needs. Those who played the game with a small income, and thus



gained a temporary sense of what it's like to be poor, later reported having less control over their general life outcomes than those who played the game with a large income.

Related research demonstrates that decreased self-efficacy can be caused not only by experiencing scarcity in resources, but also by believing one has fewer resources than most other people in one's society. In one study, a sense of low relative socioeconomic status was experimentally induced, either by telling American participants that they were doing worse than 70% of Americans and comparing them with those told they were doing better than 80% of Americans, or getting them to fill out a sociodemographic form in which income brackets stretched either very high or very low. In both studies, those made to feel relatively low in income reported having lower generalized self-efficacy, indicating that thinking that one is at the bottom of

society in economic terms causes one to feel less control over one's life outcomes.<sup>9</sup>

**There is increasing evidence that self-efficacy, operationalized as a personal sense of power, has a causal effect on temporal discounting. In a recent study, participants were randomly assigned to experience a low sense of power, either by being given a low power role in an online game, or writing about a time when someone else had control over them.**

Why does self-efficacy matter for the economic decision-making of people living in poverty? It is notable that poor self-efficacy is connected to poor health-related behaviours and decisions, ranging from taking up smoking to eating unhealthy food.<sup>10</sup> As health behaviours are a critical contributor to physical health,<sup>11</sup> it is no surprise that greater sense of control predicts positive health-related and other life outcomes,<sup>12</sup> recurring as a key mediator of the effects of socioeconomic status on physical well-being.<sup>13</sup> A greater sense of control may also play a moderating role, as the effect of perceived self-efficacy on health outcomes increases as socioeconomic status decreases.<sup>14</sup> Moving from physical to subjective well-

being, there is reliable cross-national evidence that, all other things equal, the poorer one is, the less happy one is,<sup>15</sup> and the more likely one is to suffer from depression and anxiety.<sup>16</sup> This path could be mediated by self-efficacy, as lowering a person's sense of power or control leads to a decrease in that person's happiness and mood.<sup>17</sup>

The effect of poverty and lack of self-efficacy on physical and subjective well-being matters for private sector actors who care about the productivity and job satisfaction of employees from poor backgrounds. Even more importantly, both self-efficacy and happiness are robustly associated with important decision-making patterns. They exhibit their effects partly through self-regulation: the ability to behave in line with future goals in the face of conflicting proximate goals.<sup>18</sup> Psychologists have long known that the ability to resist the impulse to satisfy a present urge for the sake of a future benefit is connected to a range of positive outcomes later in life.<sup>19</sup> Bringing this to bear on the link between self-efficacy and health behaviours, the more one believes one has power over one's conduct and future direction, the more one is likely to engage in self-regulation, resisting the temptation to smoke, drink and eat unhealthy foods in the face of stress.<sup>20</sup>

A process related to self-regulation is also studied in behavioural economics, where researchers measure how much more one is willing to pay to get a product or good now, as opposed to receiving it after a period



of time—a phenomenon known as “temporal discounting.”<sup>21</sup> The more one privileges current goals over future goals, the more likely one will be to pay a premium to get something now rather than later.

There is increasing evidence that self-efficacy, operationalized as a personal sense of power, has a causal effect on temporal discounting. In a recent study, participants were randomly assigned to experience a low sense of power, either by being given a low power role in an online game, or writing about a time when someone else had control over them. Those feeling a low sense of power subsequently discounted the future more than those feeling a high sense of power. The same authors found that those who experience a general sense of power or control in the workplace are the most likely to put money away as savings.<sup>22</sup> Other studies in this field of research show that the less powerful one feels, the less one is likely to focus on one’s goals,<sup>23</sup> to believe one can attain them<sup>24</sup> and to take the actions needed to achieve them.<sup>25</sup> A similar pattern holds for subjective well-being: the worse one feels, the more one discounts the future, to the point of interfering with daily economic tasks.<sup>26</sup>

In sum, being poor, and seeing oneself as a lot worse off than others, reduces one’s sense that one’s life outcomes are under one’s control. This diminished perception of self-efficacy in turn drives down one’s likelihood of holding off on present temptations for the sake of achieving future goals. The result is that not only are those on very low incomes unhealthier and unhappier, they are also more likely to make decisions that harm their chances of long-term success. Indeed, evidence that the link between poverty and self-efficacy matters for economic outcomes comes from the finding that a one standard deviation decrease in efficacy, as measured by the locus of control scale, is associated with a 6.7% wage decrease.<sup>27</sup>

## POVERTY IS STRESSFUL

Life in poverty is life in the presence of a significant number of stressors: the discomforts of living without adequate food, shelter and healthcare, the depressing sense of being at the bottom of society, and the constantly salient absence of control over one’s environment and what happens in one’s life. Looking at how stress manifests in the body, through hormones and neurotransmitters such as cortisol and norepinephrine, both measurable through saliva, can reveal how chronic exposure to it affects economic decision-making.

In one study with a large US sample, lower income and education were associated with higher evening cortisol levels, indicative of chronic stress.<sup>28</sup> Persons with low socioeconomic status, as measured by income and education, had higher overall levels of cortisol, epinephrine and (marginally) norepinephrine.<sup>29</sup> Similarly, in a UK sample, a robust relationship has been found between cortisol levels and lifetime socioeconomic position, with poorer individuals showing higher overall cortisol levels, as well as more abnormal diurnal patterns. Similar results have been obtained in infants and children, revealing that those from low income families have greater amounts of cortisol<sup>30</sup> and epinephrine.<sup>31</sup> The relationship between parental socioeconomic status and children’s cortisol levels gets weaker as children get older and closer to leaving the home.<sup>32</sup>

Supportive of a causal effect of poverty on stress, one study found that cortisol levels were significantly higher in Swedish blue-collar workers who had just lost their jobs, where such job loss was due to a factor unlikely itself to be affected by cortisol: plant closures.<sup>33</sup> It has also been found that children who went through the Mexican Oportunidades programme—the principal antipoverty initiative of the Mexican government—exhibited lower baseline cortisol than an otherwise similar group of children who did not.<sup>34</sup>



Finally, one study found that negative income shocks to Kenyan farmers, which were randomly generated by periods of low rainfall, lead to increases in cortisol levels. Farmers have higher levels of cortisol when it does not rain and crops are likely to fail.<sup>35</sup>

Elevated cortisol is a sign that the body is ready to respond to threat: a physiological state beneficial for reacting to immediate harm but physically wearing if chronically maintained.<sup>36</sup> It has been found that stress induced by anticipating giving or actually giving a speech leads to impairment in an economic decision-making game that involves picking up on patterns of gains and losses in order to win money.<sup>37</sup> In a separate study, inducing stress by asking participants to hold their hands in ice cold water caused participants to be more sensitive in their risk preferences to whether they were framed in terms of gains or losses.<sup>38</sup>

Orally administering 10 milligrams of hydrocortisone, a chemical that raises cortisol levels in the brain, mimics some of the neurobiological effects of stress. Fifteen minutes after drug administration, study participants who had received hydrocortisone showed an increase in temporal discounting compared with those who received a placebo.<sup>39</sup> That is, those experimentally exposed to the neurobiological markers of stress valued the present more highly relative to the future, suggesting that stress drives up temporally short-sighted behaviour akin to that observed in poverty.

How does the link between poverty and stress interact with that between poverty and self-efficacy? Early stress research has shown that lack of control in terminating an aversive stimulus is one of the most important contributors to stress, and leads to symptoms of depression as well as learned helplessness.<sup>40</sup> Furthermore, recent evidence shows that assuming a low power pose, involving constricted (versus expansive) body postures, increases cortisol while also decreasing testosterone. Participants in the “low power” condition in this study subsequently exhibited greater risk aversion, in that they were more likely to choose a safe outcome over a gamble of comparable expected value.<sup>41</sup> Thus, powerlessness, a proxy for the low self-efficacy characteristic of life in poverty, may increase risk aversion and cortisol levels, a combination that results in lower average economic payoffs in the long run.

## POVERTY IS DISTRACTING

Considering the combination of stress and lack of control associated with poverty, it is clear that the income-poor have a lot on their minds. That a person living in poverty must spend substantial time and effort thinking about how to get a comfortable night’s sleep, or how to earn money to feed a family, means they have less mental space and energy to devote to the decisions the private sector may demand of them.

Recent behavioural economics research argues that suboptimal economic decisions made by the income-poor are the result of cognitive habits that are present in any individual but exacerbated by the distracting nature of life in poverty. One such cognitive habit, already discussed, is a bias towards the present, such that goods received in the present are overvalued relative to goods received in the future. Other biases include valuing something more when it is given up than when it is gained (loss aversion),<sup>42</sup> an inclination to prefer default options (status quo bias)<sup>43</sup> an overestimation of the accuracy of one’s judgments and the ability to control one’s behaviour (overconfidence),<sup>44</sup> and a tendency to respond to decisional conflict in which one is faced with many desirable options by refraining from making any decision at all.<sup>45</sup>



For those on very low incomes, such cognitive habits might translate into a decision not to switch towns to find employment for fear of loss of social ties, to take out an expensive loan one is unlikely to be able to repay, or not to invest in a retirement plan that involves a choice between many fund options.<sup>46</sup> Thus, decision-making habits that affect everyone<sup>47</sup> are more noticeable and more consequential for people who have less decisional slack in the first place.<sup>48</sup>

The irony of poverty is that just as constrained resources increase the costs of bad decisions, so too do resource constraints actually increase the likelihood of making such bad decisions in the first place.<sup>49</sup> In addition to the effects of stress and lack of control on decision-making, those with a greater number of things on their mind, termed “cognitive load,” are more likely to succumb to mental shortcuts and biases that are not always optimal.<sup>50</sup> Consistent with the link to life in poverty, the incidence of such cognitive pitfalls increases as education and socioeconomic status decrease.<sup>51</sup> For example, loss aversion is more extreme among the less educated,<sup>52</sup> while temporal discounting is steeper among those with low income or educational attainment.<sup>53</sup> Furthermore, a difference in magnitude of economically consequential decision-making biases interacts with the informational and social environment along socioeconomic lines. The wealthy may have plenty of time, technological capacity and educational social networks to find out more information that might counter a cognitive shortcut or bias. But those experiencing poverty often forced to make decisions in a rushed and information-poor setting, in which cognitive biases will have more sway.<sup>54</sup>

Moving from correlational to causal evidence, behavioural economists have begun demonstrating such decisional patterns among middle-class research participants experimentally deprived of resources.<sup>55</sup> In one study, US college undergraduates and online participants played a game in which a random subset of players had very little time in each round, and all players had the opportunity to “borrow” time from future rounds, at varying rates of “interest.” Those given the least of a valuable resource—in this case, time—borrowed a larger proportion of their budget, and at higher rates, than those given more of that resource. Such excessive borrowing led to worse performance among resource-poor participants than if they had engaged in little or no borrowing. This decision among “poor” participants to borrow time from future rounds appeals to a tendency to shift attention towards a limiting resource in the moment, and thus to be distracted from the game’s overall goal.<sup>56</sup>

The consumption of limited mental bandwidth by the concerns of life in poverty may affect economic decisions through interference with executive functioning, the high-level cognitive processes that monitor and control thought and action.<sup>57</sup> Executive functioning includes attentional flexibility and goal focus, precisely the mechanisms needed to overcome decisional conflict<sup>58</sup> and impaired by scarcity in the study outlined above. It also directs skills such as planning and self-regulation, both of which feed into self-control and are necessary to resist the urge to accept an immediate payoff when a greater payoff is available in the future.<sup>59</sup> Indeed, performance on tests of executive function is inversely correlated with susceptibility to decision-making biases.<sup>60</sup> To investigate the role of executive functioning in the psychological situation of poverty, researchers approached shoppers in a New Jersey mall and asked them to contemplate a life problem (such as repairing a

**Moving from correlational to causal evidence, behavioural economists have begun demonstrating such decisional patterns among middle-class research participants experimentally deprived of resources.**



car) involving a financial need that was either small or large, before completing a measure of inhibitory control and of abstract reasoning. Those with low incomes performed as well as those with high incomes when the previous task involved a small financial need, and thus did not create cognitive load for either group. But the low income group performed much worse than the high income group when the previous task involved contemplating a large mandatory expense—a source of cognitive load for them alone.

In a study presenting quasi-causal effects in a field setting, Indian sugarcane farmers performed better on similar measures of cognitive functioning when they had been paid after a sugarcane harvest, as opposed to right beforehand, when they were at their most financially constrained. Thus, it appears that the distraction and cognitive strain associated with resource scarcity take up limited cognitive resources, impairing people's ability to process and manipulate information when in poverty or when concerned about it.<sup>61</sup>

The causal effect of poverty on cognitive impairments occurs not just because of absolute resource scarcity, but because of relative financial deprivation. In one set of studies, participants drawn from US college, online and low income samples were randomly assigned to feel they were at the bottom of the American socioeconomic ladder. They performed worse in three measures of executive functioning than did those led to feel they were near the top of the ladder.<sup>62</sup>

In sum, the situation of poverty limits people's ability to perform at their cognitive best; this effect holds both when poverty is defined through absolute and through relative resource scarcity, and it operates through a lack of control, stress and consumption of mental bandwidth. Employers would do well to note that the many distractions characteristic of life as a low income worker will likely lead to failures in attention to daily work tasks and, unless taken into account, drive down performance and chances of job advancement.<sup>63</sup>

### POVERTY NARROWS FOCUS

In considering the pattern of thinking and decision-making that is reliably associated with life in poverty, it is clear that being poor does not mean being irrational. On the contrary, the behavioural patterns associated with poverty can be understood as rational responses to a stressful situation that imposes considerable cognitive constraints. More recently, scholars have developed this idea that the mindset triggered by poverty is adaptive by proposing that poverty lowers one's level of cognitive construal.<sup>64</sup>

Cognitive construal is a general term used to capture the level of abstraction used in information processing. The same set of cognitive stimuli can be thought of in low-level concrete terms or in high-level abstract terms. Thus, the behaviour of making a list of tasks can be framed as the concrete action of "writing things down on a page," or the more abstract goal of "getting organized." Early articulations of this construct claim that engaging a low-level mindset is linked to having a low level of personal agency, being more likely to behave impulsively and having everyday actions disrupted by situational distractions.<sup>65</sup> More recent theorizing allows for the beneficial potential of a low level of cognitive construal, describing how it prepares one to plan the details of how one will carry out a particular action or goal, as opposed to spending time thinking about why one is engaged in it. Construal level theory outlines how low-level concrete thinking causes one to focus on stimuli that are proximate on all dimensions of psychological distance: spaces that are close by rather than far away, people who are socially close rather than socially distant, events that are actual rather than hypothetical and things that are happening now versus sometime in the future.<sup>66</sup>





It may be that being in a situation of scarce resources triggers the lowering of one's level of cognitive construal, and that this offers a mechanistic understanding of some of the decision-making patterns of the income-poor. In particular, the bias towards the present that appears again and again in investigations of low income decision-making may be the result of a general shift in the focus of psychological distance, with proximity in the temporal dimension just one information-processing outcome. If experimental simulations of absolute or relative resource scarcity lead not only to a focus on events that are temporally proximate but also on people who are socially close and spaces that are geographically near, many aspects of the psychological situation of poverty might be understood under the umbrella of cognitive construal.

It makes sense that a focus on the here and now might be triggered by such threatening cues as that there are few resources to go around, or that one is low in the status hierarchy of one's community. Such a focus enables channelling one's physical and cognitive resources to avoid immediate threats and meet urgent needs, as opposed to wasting time and energy investing in a future about which one has no guarantees. In one study supportive of this approach, Chinese participants were exposed to images of poverty-related (versus affluence-related) scenes, and subsequently increased their bias towards immediate (as opposed to delayed) rewards.<sup>67</sup> For those chronically living in poverty, it may be that the privileging of current over future goals is the result of cues not only in their current life stage, but also in the environment in which they grew up. Indeed, a stream of research in evolutionary biology focuses on how individual differences in enduring tendencies to privilege immediate over delayed goals are the result of broad changes in self-regulatory strategy that are set in youth, when the body and brain calibrate according to cues as to the resources and stability of the environment.<sup>68</sup>

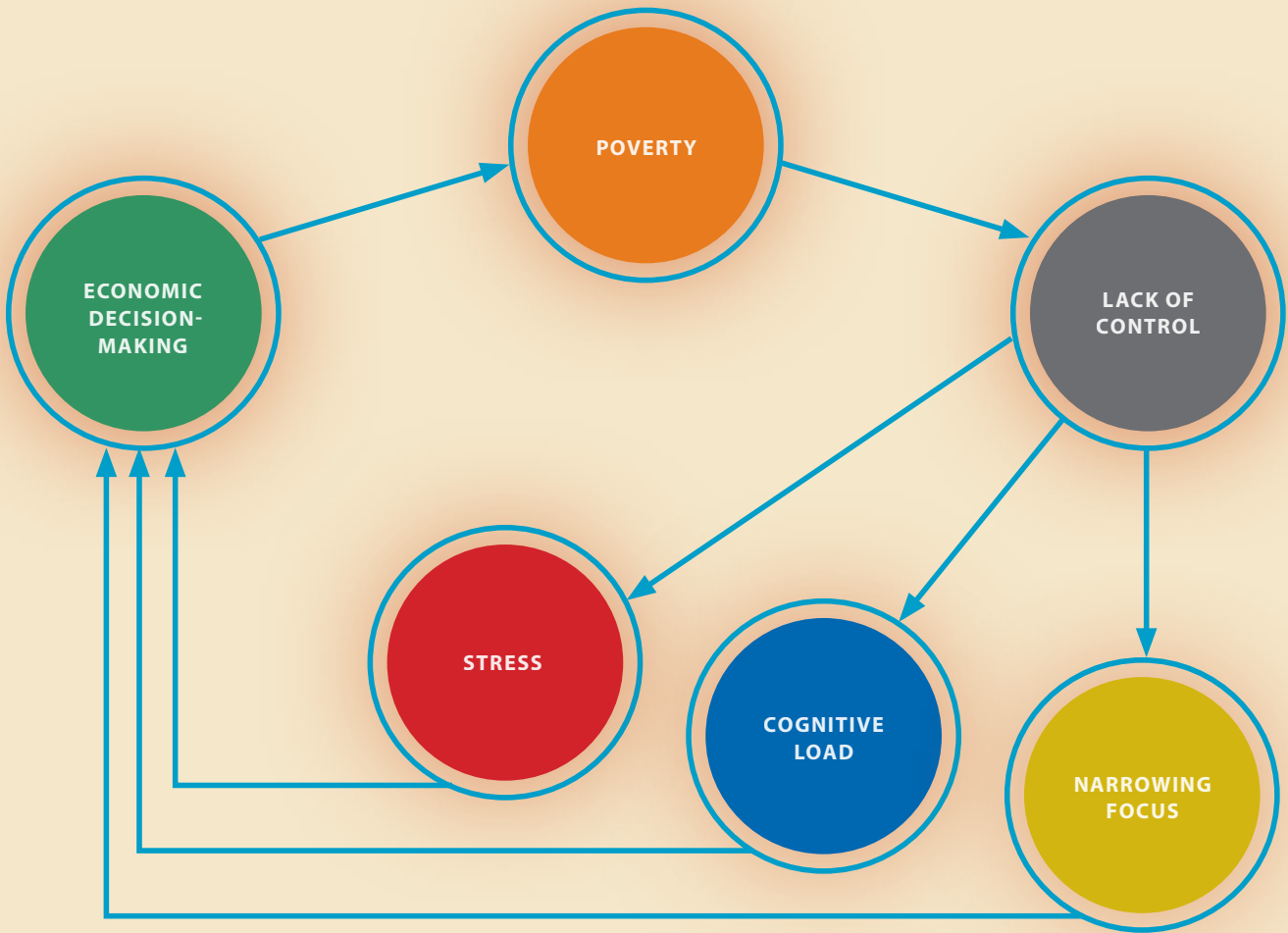
Seen through the lens of adaptive responses, the harmful decisions and behaviours associated with those living in poverty result from a focus on short-term outcomes that is inherent to a lower construal level.<sup>69</sup> Its benefits for immediate survival are less evident in the modern day developing world than are its detrimental impacts on long-term economic and health-related outcomes. Yet these benefits exist: those on low incomes reason better than those on high incomes when it comes to immediate money matters, remembering better the price of items, spotting poor value for money and trading off time, and effort to save money across different scenarios.<sup>70</sup> Thus, understanding the psychological situation of poverty in terms of underlying mechanisms such as construal level enables practitioners to demystify a puzzling pattern of behaviours and decisions; to move from seeing it as irrational to seeing it as the application of rational shifts in cognitive focus to an environment that punishes rather than rewards it.

## ADDRESSING ENDURING CONSTRAINTS ON ECONOMIC DECISION-MAKING

Living with very little money means having very little control over one's environment and life outcomes, an objective lack of power that manifests as a subjective diminishment in perceived self-efficacy. This lack of control triggers three key characteristics of the psychological situation of poverty, which in turn lead to economic decisions often detrimental to long-term well-being (figure 6.1). Chronic stress, and its resultant elevation in stress hormones, causes the privileging of current over future rewards. The consumption of the mind with resource-related concerns generates a form of cognitive load that distracts one from focusing on making the best decisions at hand, and increases vulnerability to a range of decision-making heuristics and



FIGURE 6.1 CYCLE OF POVERTY AND DECISION-MAKING



biases. The lowering of cognitive construal causes one to focus on stimuli that are proximate on all levels of psychological distance, causing one to neglect goals that are abstract and in the future. The economic decisions that result may ward off pressing threats to survival and lead to immediate benefits. In the long run, however, they may exacerbate the very situation of poverty that caused them, giving real purchase to the possibility of a poverty trap.

Empirical research in this area yields not only greater understanding but also an ability to use this understanding to help battle the persistence of poverty in the 21st century. In particular, a focus on the cognitive mechanisms underlying economic behaviours associated with poverty can reveal points for intervening to increase the incidence of decisions that enhance long-term well-being. One gains greater confidence in the



causal role of such mechanisms, and thus the efficacy of potential interventions available to both government and private sector actors, with the increasingly common use of rigorous experimental techniques to study the behavioural economics of poverty. Successful policy interventions can be designed only when donors replace their assumptions about the behaviours of “the global poor” with detailed evidence. This chapter has challenged at least two such assumptions about the personal economic decisions of those at the base of the pyramid: that such decisions are essentially defective, and in contrast, that they can be expected to be as optimal as if made in a decision-making vacuum free of constraints. Rather, the economic behaviours of those living in poverty are best understood by seeing how they share the same underlying psychology as those living in affluence, manifesting in a heavily constrained and present-focused mindset.

## OPPORTUNITIES FOR THE PRIVATE SECTOR

Opportunities exist for the private sector to use insights from behavioural economics to improve outcomes. They offer scope to increase understanding of barriers to take-up of innovations, improve the attractiveness of products and the performance of employees, help identify new openings for social entrepreneurs interested in poverty reduction, improve supply chain management and payment arrangement, better integrate the social mission of an inclusive business and identify new market opportunities.

There are a number of implications and opportunities for businesses that engage with those on very low incomes as consumers. An overarching lesson is to design economic interactions with the income-poor in a way that allows for high levels of autonomy, thus boosting self-efficacy. Communications targeted towards those at the base of the pyramid should be clear and concise, recognizing the distraction and cognitive strain of resource scarcity. One promising area for innovation in this domain, especially financial services institutions, is to help people living in poverty to understand and access financial services such as savings and credit. Programmes exist in various countries that aim to teach the income-poor about financial management, and such programmes can be paired with opportunities to act immediately and make simplified decisions (box 6.1). For example, the individual identifies a savings goal and the financial institution manages the receipts and investments without releasing the funds until the savings goal is reached. Perhaps these savings could be immediately translated into the product of the savings goal, such as a refrigerator or a motorbike, at discount in partnership with manufacturers.

### BOX 6.1 ENHANCING FERTILIZER USE AMONG KENYAN FARMERS THROUGH FINANCIAL MANAGEMENT KNOWLEDGE

Farmers in Kenya did not use fertilizer even after being told of the benefits, despite prices being low enough to make it affordable. Farmers were motivated to buy fertilizer, but put it off to later dates, possibly because of the costs associated with travelling to

town to make the purchase, or because of other pressing expenditures. By the time the next planting season arrived, many farmers did not have sufficient liquidity to purchase fertilizer. Recognizing the time inconsistency in this decision, researchers offered timed

discounts on fertilizer purchase following the harvest—that is, at a time of high liquidity. Providing farmers with this nudge to “act now” was sufficient to overcome their tendency to put off buying fertilizer and significantly increased take-up.<sup>71</sup>



## 6. DECISION-MAKING BARRIERS AND OPPORTUNITIES

Firms operating in low income areas can play a strategic role as employers in helping overcome the decision-making barriers described in this chapter. This could involve implementing daily workplace routines to increase self-efficacy, engaging workers through goal-setting and regular feedback and ensuring that work provides meaning and competence and allows for empowerment and self-determination. Employers can help tackle the physically stressful nature of poverty by ensuring sufficient breaks and other downtime in manual workers' schedules, and can create training programmes that identify both physical and psychological workplace stress and teach coping skills. Counselling or related support mechanisms in the workplace could help individuals facing home and workplace stress; similarly, services such as workplace childcare could reduce sources of home-related cognitive load and distraction. Putting in place transparent incentive structures and performance-monitoring processes can buffer and reduce stress in an area in which it is often exacerbated, and anonymous reporting procedures can be implemented at the worksite to reduce the stress of directly reporting problems.

One of the most stressful aspects of the workplace is uncertainty around job security, which could be addressed through long-term employment contracts and salaried leave for periods of illness and family need.

Businesses can help mitigate the unique cognitive demands of poverty by decreasing the number of important decisions customers and employees have to make, such as by ensuring that many basic provisions are included in retail or employment contracts. By designing products simply and making employee communications clear and concise, they can be made more accessible to those enduring the cognitive constraints associated with poverty. Taking into account how poverty can narrow focus, firms can provide training sessions focusing on long-term planning and goal setting, and even provide commitment devices and other incentive schemes to help employees save for education, health and housing. Such interventions can help optimize long-term economic outcomes of employees, thus also benefiting the firm.

Social enterprises and inclusive businesses can explore opportunities to help the income-poor outsource factors that contribute to a higher stress environment, such as savings uncertainty, as a business opportunity. They could centralize certain services in each community and offer a lower rate due to economies of scale, such as in a group investment account. Large investment funds may not be interested in small-scale investors, but tranches for the income-poor based on investment length could be developed with microfinance institutions involved in weekly collections. Those living in poverty would not have to worry about the "how" of saving money, exchanging a bit of interest gain for better access to financial instruments (box 6.2).

### BOX 6.2 RESTRICTIVE SAVING ACCOUNTS

Those living in poverty are often temporally, cognitively and financially constrained. This insight led researchers in the Philippines to design a savings account that took into

account the role of depleting self-control in preventing people from saving as much as they wanted. Created in partnership with a local bank, the account allowed clients to lock

funds until a specified goal had been reached. This small behavioural intervention led to an increase of 81% in savings after one year for those who chose to open an account.<sup>72</sup>



## Reverse innovation

So far this chapter has discussed how the private sector can help solve or mitigate the negative consequences of how people in poverty respond to a large set of constraints. But there are possible upsides to these responses, which businesses serving the base of the pyramid can draw on to design new products and services. This approach complements the focus placed by inclusive businesses on co-creating products, services and business models with those living in poverty,<sup>73</sup> which relies on leveraging their strengths and local knowledge. Usually this is framed as necessary to succeed in the host country, but innovations in business processes and product development in low income countries can sometimes be turned around and put to use in higher income countries, creating new sources of revenue for companies that engage with those living at the base of the pyramid.

Reverse innovation refers to the globalization of innovations arising from the need to achieve goals in environments with extremely limited monetary resources, infrastructure and electricity.<sup>74</sup> The findings of behavioural economics demonstrate that self-control, foresight, information processing and attention all compete for scarce mental resources. These insights are universally applicable, but the circumstances of poverty place unique cognitive demands on those experiencing it, who often juggle several jobs and care for larger families. Businesses that succeed in creating products and services for these consumers will find a large market in developed countries, where such constraints exist in different manifestations (such as limited time). At the same time, those experiencing resource scarcity exhibit greater cognitive performance on present-focused and resource-related tasks, skills that could be harnessed directly to yield innovative thinking. This is an invitation to review, reconfigure and potentially reframe existing business models in ways that allow them to be accessed by those on the world's lowest incomes, thus creating new models that see decision-making constraints less as barriers and more as opportunities.



## 6. DECISION-MAKING BARRIERS AND OPPORTUNITIES

**FIGURE 6.2 OPPORTUNITIES FOR PRIVATE SECTOR ENGAGEMENT IN REMOVING DECISION-MAKING BARRIERS TO POVERTY REDUCTION**

	CSR—INTERNAL	CSR—EXTERNAL	SOCIAL ENTERPRISE	INCLUSIVE BUSINESS	MAINSTREAM BUSINESS
<b>POVERTY DEPLETES SELF-EFFICACY</b>	<b>Promote self-efficacy</b>				
	<ul style="list-style-type: none"> <li>Implement on-the-job training to increase self-efficacy</li> <li>Create counselling programmes for workers to increase self-efficacy</li> <li>Engage workers through goal-setting and regular feedback; ensure that work provides meaning and competence, and allows for empowerment and self-determination</li> </ul>	<ul style="list-style-type: none"> <li>Engage in “pro-social” hiring, recruitment, training and development by deliberately targeting people from the base of the pyramid who might not otherwise be considered due to geography, performance or qualifications</li> <li>Promote respect for individuals within community through inclusive practices, supportive communal decision-making processes, local leadership and self-efficacy programmes</li> </ul>	<ul style="list-style-type: none"> <li>Support personal decision-making and risk taking, financial control and knowledge sharing, through initiatives such as study circles, SMS and adaptive technologies</li> <li>Create online train-the-trainer courses designed for implementation at the base of the pyramid that emphasize the importance of working conditions conducive to empowerment</li> </ul>	<ul style="list-style-type: none"> <li>Support local decision-making in supply chain negotiations; enable fair trade agreements</li> <li>Promote and provide skills evaluation and development opportunities, in conjunction with social enterprise efforts, for business partners, customers, suppliers and employees at the base of the pyramid</li> <li>Increase accessibility of markets, such as via agribusinesses developing cooperatives or access to collection centers, and making available training, credit (prepayment) and inputs to help meet international certification standards</li> </ul>	
<b>POVERTY IS DISTRACTING</b>	<b>Reduce distractions within the workplace</b>	<b>Simplify recognition of opportunities and understanding of choices</b>	<b>Develop processes and business models that incorporate implications of distraction</b>		
	<ul style="list-style-type: none"> <li>Develop employee benefit programmes</li> <li>Provide free in-house financial training for employees</li> <li>Decrease sources of home-related distraction through provision of services such as workplace childcare and paid family leave</li> </ul>	<ul style="list-style-type: none"> <li>Provide educational materials about the values and opportunities offered within community</li> <li>Promote communal decision processes</li> </ul>	<ul style="list-style-type: none"> <li>Design business relationships with the poor that recognize the distraction and cognitive strain of resource scarcity</li> <li>Establish processes for longer term purchasing (purchase for a lower price if sign a contract for a minimal purchase)</li> <li>Develop co-op and other community business models</li> <li>Establish payment models that limit interest on long-term payment schemes</li> <li>Design product communications that are clear and concise</li> </ul>		
<b>POVERTY IS STRESSFUL</b>	<b>Tackle financial distress and other sources of stress</b>				
	<ul style="list-style-type: none"> <li>Provide long-term contracts and assurances against sudden dismissal</li> <li>Ensure sufficient breaks and other downtime in workers’ schedules to reduce physical stress</li> <li>Create worker training programmes identifying workplace stress and coping skills for all forms of company labour (physical and managerial)</li> <li>Create workplace counselling and peer groups for women facing home and workplace stress</li> <li>Create workplace childcare support to reduce the stress for working women unable to afford childcare</li> <li>Create anonymous reporting procedures at work to reduce the stress of directly reporting workplace problems</li> </ul>	<ul style="list-style-type: none"> <li>Support community investment to alleviate financial distress—for example, Paraguay community savings</li> <li>Develop community health services related to specific stress factors</li> <li>Develop community counselling services for stress management</li> </ul>	<ul style="list-style-type: none"> <li>Support accessible microfinance arrangements through a community savings plan and matched savings</li> <li>Develop innovative technology and support systems for inclusive businesses to establish work arrangements that allow workers at the base of the pyramid to complete meaningful work, earn a living wage and access work and support services</li> </ul>		<ul style="list-style-type: none"> <li>Promote good financial management practices, accurate financial transactions and transparent arrangements; honour all debts</li> </ul>
<b>POVERTY NARROWS FOCUS</b>	<b>Promote activities that expand psychological focus</b>				
	<ul style="list-style-type: none"> <li>Design activities that increase the focus on employees’ future goals</li> <li>Provide training sessions focusing on long-term planning with special one-to-one sessions for new hires</li> <li>Provide special account or other savings programmes for employees’ education, health and housing needs</li> <li>Promote medium-term planning for workplace activities with progressive steps towards achievements</li> </ul>	<ul style="list-style-type: none"> <li>Provide short community training programmes offering trainees general skills to support a perception of increased chances for employment</li> <li>Support community planning activities that enable longer term thinking, including simple scenario planning to widen horizons</li> </ul>	<ul style="list-style-type: none"> <li>Create specific bank accounts, microfinancing programmes and other long-term services targeting those living below the poverty line</li> <li>Create lower cost housing for those with minimum wage employment cooperating with local businesses</li> <li>Create innovative transport systems for those living below the poverty line to help them access markets with greater job opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Implement workplace development programmes that focus on lower income employees including skills passports, personal asset assessments, and measures of confidence, motivation, empathy and pride in achievements</li> <li>Orient towards harnessing the innovation and creative solutions of the poor, enabling reverse innovation</li> </ul>	



## Notes

- 1 Seeman 2008.
- 2 Rotter 1966.
- 3 Pearlin and Schooler 1978.
- 4 Bandura 1977, 2001.
- 5 Gecas 1989; Lachman and Weaver 1998.
- 6 Mirowsky and Ross (1986); see also Seeman (2008).
- 7 Haushofer and Fehr 2014.
- 8 Sheehy-Skeffington and Sidanius 2014a.
- 9 Sheehy-Skeffington and Sidanius 2014a.
- 10 Bandura 2001; Legander and Kraft 2003; McAuley, Lox and Duncan 1993; Seeman and Seeman 1983.
- 11 Adler and Rehkopf 2008.
- 12 Bobak and others 2000; Johnson and Krueger 2005.
- 13 Bobak and others 2000; Seeman 2008.
- 14 Lachman and Weaver 1998.
- 15 Haushofer and Fehr 2014.
- 16 Lund and others 2010.
- 17 Anderson and Berdahl 2002.
- 18 Fujita 2011.
- 19 Mischel, Shoda and Rodriguez 1989.
- 20 Seeman and Seeman 1983.
- 21 Kirby and Marakovic 1996.
- 22 Joshi and Fast 2013.
- 23 Keltner, Gruenfeld and Anderson 2003.
- 24 Anderson and Galinsky 2006.
- 25 Galinsky, Gruenfeld and Magee 2003.
- 26 Ifcher and Zarghamee 2011; Lerner, Li and Weber 2013; Bolton and others 2003.
- 27 Osborne Groves 2005.
- 28 Cohen and others 2006.
- 29 Cohen, Doyle and Baum 2006.
- 30 Lupien and others 2001; Saridjan and others 2010.
- 31 Evans and English 2002.
- 32 Lupien and others (2001); see also Chen, Cohen and Miller (2010).
- 33 Arnetz and others 1991.
- 34 Fernald and Gunnar 2009.
- 35 Chemin, De Laat and Haushofer 2013.
- 36 Seeman and others 2001.
- 37 Preston and others 2007.
- 38 Porcelli and Delgado 2009.
- 39 Cornelisse and others 2013.
- 40 Seligman and Maier 1967.
- 41 Carney, Cuddy and Yap 2010.
- 42 Tversky and Kahneman 1991.
- 43 Kahneman, Knetsch and Thaler 1991.
- 44 Fischhoff, Slovic and Lichtenstein 1977.
- 45 Botti and Iyengar (2006); though see Scheibehenner, Greifeneder and Todd (2010).
- 46 Iyengar, Jiang and Huberman (2004); see also Camerer (2005).
- 47 Kahneman and Tversky 2000.
- 48 Bertrand, Mullainathan and Shafir 2006.
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- 62 Sheehy-Skeffington and Sidanius (2014b); see also Smith and others (2008) for the damaging effect of low social power on executive functioning.
- 63 Banerjee and Mullainathan 2008.
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- 65 Vallacher and Wegner 1987.
- 66 Liberman and Trope (1988); for a review see Trope and Liberman (2010).
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- 73 UNDP 2008.
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## **7. PRECLUDING POVERTY THROUGH SOCIAL INCLUSION**



The report presented poverty as a complex web of accumulating and interacting disadvantages that sustain and perpetuate a life of socioeconomic exclusion. When so many of the world's citizens stand ready to offer help to those in poverty, why does this help often seem to create so little change? The answer is multifaceted, but at least part of it may derive from common and limited perceptions of what poverty is—and what constitutes help for people affected by poverty. Income inequality is perhaps the most visible indicator of and barrier to poverty reduction, yet it is not the only one. Poverty is multidimensional and consists of differences in capacity, livelihoods and agency. And deprivation across education, health and living standards, as well as systematic inequalities across ethnic, regional and gender lines, reinforces poverty as a social phenomenon.<sup>1</sup> Conceptualizing poverty as social exclusion can frame fresh perspectives on efforts to eradicate poverty. By helping to preclude poverty through social inclusion, the private sector can help create a world economic community where no one is kept on the outside looking in.

### CONCEPTUALIZING POVERTY

There are many similarities in general understanding of poverty: images of hungry children, families in sub-standard housing or homeless people passed on the street. These and other images convey one of the most readily observable realities of poverty: financial and material deprivation. People in poverty lack the income to support their own or their families' basic needs, and the resulting deprivation and stress damages the physical and emotional well-being of income-poor children and adults.

Given the obvious, concrete impact of deprivation in the lives of people affected by poverty, it is perhaps not surprising that most scientific studies of poverty address it from this perspective—by examining aspects of scarcity in poor peoples' lives and tracing the damage that results. Researchers may go on to propose programmes or mechanisms for supplying relevant aid to those living in poverty and to study the beneficial impact. Examples might include studying the depression rates of mothers who live in homeless shelters or documenting the reduced academic achievement of children who come to school hungry. And human service programmes that help income-poor families gain access to medical treatment, feed their children or find permanent housing can be shown to alleviate specific harmful effects of deprivation. This conceptualization of poverty, a well-worn path for social scientists and public health experts, has produced a mountainous, little-contested body of evidence attesting to the harmfulness of poverty to the well-being of children, adults and communities.

The same conceptualization is also reflected in organized efforts to “help the poor,” whether by individuals or by charitable foundations. Altruistic individuals may donate money or time to charities or volunteer organizations that bring needed resources to the families without them. Charities and philanthropic organizations organize fundraising events around the need for aid or sustenance in particular communities. And such campaigns may be the source of valuable services for income-poor families: a low-fee or no-fee medical service, a breakfast programme for preschoolers, coat drives in the winter, food drives at any time of the year. These resources support the day-to-day survival of the most vulnerable children and adults who receive them, making charitable organizations valuable contributors to global efforts aiding people living in poverty.

The harm from the financial and material deprivations of poverty is obvious, relevant and undeniable, and organized giving campaigns can address the damage done. But other larger dimensions of poverty transcend this perspective, as touched on by some of the most influential economists, dating back at least as far



as Adam Smith's 1776 publication, *The Wealth of Nations*. Smith clarified that a crucial element of poverty is the marginalization of the poor in public life and the ongoing social shaming that they experience as a result. Stein Ringen, a professor of sociology and social philosophy at Oxford University, struck a similar chord in characterizing poverty as a restricted, marginalized, disempowered social location:

**“The problem of poverty manifests itself in the lives of persons and families as an enforced lack of basic material power to live as one wants or as reasoned fear that one might fall into that situation. It is to live under the dictatorship of material necessity without choice and control in one’s daily life. That’s what poverty is, it’s about freedom and power and the lack thereof.”<sup>2</sup>**

Perhaps most influentially, Nobel Prize winning economist Amartya Sen has argued against concrete, resource-related calculations (such as poverty lines) in delineating poverty, emphasizing that money and resources are crucial precisely because they enable people to participate in social relationships safely, proudly and freely.<sup>3</sup> Sen emphasized that the exclusion of poor people from such participation is a primary deprivation in itself, as it catalyses other deprivations such as unemployment. Indeed, the quality and quantity of individuals’ social relationships has been linked to both mental health and noncommunicable health indicators like high blood pressure and obesity.<sup>4</sup> Surveys of income-poor populations in South Africa reveal that experiences of social isolation are often cited as painful aspects of poverty.

The impact of Sen’s theorizing can be seen in such policy statements as UNDP’s 1997 Human Development Report, which conceptualized poverty not just as poverty of income but “as the denial of choices and opportunities most basic to human development—to live a long, healthy, creative life and to enjoy a decent standard of living, freedom, self-esteem and the respect of others.”<sup>5</sup> The report went on to suggest strategies for addressing poverty within this context, including the eradication of gender inequity (given that, as the result of inequity, most of the world’s poor are women and their children), pro-poor economic growth priorities and ensuring income-poor people’s participation in the decisions that affect their lives.

## POVERTY AS SOCIAL EXCLUSION

One of the Sen-inspired strategic elements offered by UNDP’s 1997 report—opportunities for social, economic and political participation for people living in poverty—corresponds to a framework for poverty that has garnered recent attention in Europe, known as social exclusion theory. According to Hilary Silver, social exclusion theory emerged from French political debate of the 1960s, when vulnerable social groups such as the income-poor began to be referenced as *les exclus*.<sup>6</sup> This discourse was adopted in other European countries and formalized in 1989, when the Council of Ministers of Social Affairs of the European Community resolved to fight social exclusion as it worked towards a Europe of Solidarity. Silver listed some of the social, economic and political opportunities whose relative unavailability can constitute social exclusion:



**“Consider just a few of the things that the literature says people may be excluded from: a livelihood; secure, permanent employment; earnings; property, credit or land; housing; the minimal or prevailing consumption level; education, skills and cultural capital; the benefits provided by the welfare state; citizenship and equality before the law; participation in the democratic process; public goods; the nation or the dominant race; the family and sociability; humane treatment, respect, personal fulfilment and understanding.”<sup>7</sup>**

A social exclusion perspective encompasses material deprivation, but brings the relational aspects of poverty to the fore. It focuses on the relationship between “the poor” and the rest of society—particularly the extensive, unremitting and mostly unexamined exclusion of people living in poverty in everyday interactions, whether in the market as workers and consumers or in the system of governance. This relational exclusion relegates people affected by poverty to a social space outside mainstream culture, outside access to mainstream opportunities and protections and outside full democratic participation in society more broadly.

A consequence, as Sen contended, is that this outsider position catalyses material deprivation, in that exclusion from the resources that support employment, enfranchisement and health perpetuates income inadequacy. So, primary contact with “the poor” becomes an encounter with “the needy:” the children’s faces shown to viewers by charitable fundraisers, the hands extended by the homeless, the emaciated families in news reports of global famines. The charitable outreach engendered by such encounters is certainly genuine, but it typically does little to mitigate the overarching exclusion of those living at the base of the income pyramid.

Not only does social exclusion catalyse material deprivation, the very experience of exclusion itself can be a unique source of harm to individuals living in poverty. A decade of laboratory research indicates that when subjects experience social rejection, the consequences are striking: they behave more aggressively, make more high-risk, self-defeating decisions, give up sooner on frustrating tasks and even show diminutions in logic and reasoning.<sup>8</sup> Moreover, socially excluded participants are more likely to agree that “life is meaningless,” to have a distorted sense of time, to avoid emotional language and to face away from mirrors. Clearly, laboratory results should not be overgeneralized to complex, real-life situations. But it also seems extreme to reject completely that this evidence is applicable to actual experiences of social exclusion. Poor communities routinely reference experiences of shame and humiliation as painful components of their deprivation—feelings that often translate into distrust of other people and institutions. UNAIDS, for example, cites stigma as one of the chief reasons why the epidemic has become a “silent killer” among those living in poverty in particular.<sup>9</sup> What the evidence suggests, therefore, is that the act of exclusion as a societal norm is a form of violence all its own—a phenomenon the eminent French sociologist Pierre Bourdieu called *symbolic violence*.<sup>10</sup>

What would it mean to address exclusion—to direct societal actions towards increasing the social inclusion of those people affected by poverty? One of the first challenges would be to recognize the signs of exclusion to which people have become accustomed.<sup>11</sup> For example, many of those comparatively better off spend



much of their lives without venturing into relatively income-poor communities. The result is a knowledge vacuum that becomes filled with the negative poverty-related assumptions and stereotypes that abound in society. What if society were not segregated in this fashion? What if social and institutional worlds were reorganized so that concentrated areas of poverty did not exist and people saw poorer families as part of their socioeconomic world?

An inclusive re-visioning would mean reinterpreting the indispensable contributions by the lowest wage workers to the smooth running of societies. Such labour may be frequently devalued by more privileged social classes, though societies rely daily on the contributions of people at the bottom of the economic hierarchy. The people who harvest food around the world, cut meat, sew garments in factories and clean offices, as well as the people who provide domestic and caregiving services, are generally those at the base of the pyramid. As integral members of the corporate supply chain, they contribute to the fortunes of those at the top of the pyramid with more socially accepted (and financially rewarded) occupations. Society needs working people to come to work every day, and an inclusive vision calls on the global community to see the value of their labour and foster respect for the contribution of all workers.

If such a vision of mutual inclusion and respect can be achieved, it would seem a short step to consider next that all workers' compensation should, at a minimum, reflect a living wage in their locale. After all, what does it mean to acknowledge that a segment of society requires someone's labour but is unwilling to pay them enough to live decently because they are constrained to accept what little is offered?

Increasingly, "constrained" is an appropriate word, in that growing numbers of people affected by poverty around the world are on the brink of complete exclusion from the world of work—the world from which basic socioeconomic inclusion derives. In today's globalized economy, billions of new workers are attempting to enter the workforce from formerly closed or developing countries such as China and India, resulting in a global oversupply of labour.<sup>12</sup> The resulting depression in wage structures has been called a race to the bottom. But the burgeoning labour oversupply threatens not only wage sufficiency. It also threatens the social safeguarding (or lack thereof) of the civil liberties of workers.

Is transnational corporatization accompanied by a gradual decrease in the protection of workers' civil rights, such as freedom of association and freedom to join workers' associations and unions?<sup>13</sup> All other things equal, "mobile investment would prefer a location with weaker standards and lower costs." When worker protections decline in one country, there tends to be a subsequent related decline in others, a trend that threatens to spiral downward. This decline seemed related not to the presence of protective regulations and laws in a given locale but to the enforcement of regulations where they did exist. In other words, the formal existence of appropriate national civil rights statutes has not protected workers from a creeping decline in standards.

And what of the world's poor who are excluded even from devalued, low-wage work? Globalization, technological advancements and an oversupply of labour not only undermine the wages and working conditions that income-poor working people must accept when they can find employment. But even these employment opportunities may be reduced. The *2013 Global Employment Trends Report* from the International Labour Organization estimated that 197 million people were without a job in 2012, a number expected to rise to 205 million in 2014. Moreover, the much of world's unemployment is long term and likely to be characterized by a mismatch among skills, education and emerging jobs. Notably, the same trends that are exacerbating the exclusion of "the poor" are further enhancing the good fortunes of those closer to the cen-



tres of socioeconomic power: corporate globalization is increasing executive-to-worker pay differentials and fuelling the growing equity gap between the world's haves and have-nots.<sup>14</sup>

The world's poor, then, survive in some of the outermost regions of socioeconomic exclusion. They are often outside global workplaces and outside the educational and commercial opportunities that could serve as pathways to contemporary occupations. The World Bank estimated that 2.4 billion people lived on less than \$2.00 a day in 2010, and its most optimistic prediction for 2015 is that about 1 billion people will be living on less than \$1.25 a day.<sup>15</sup> This mushrooming cohort looms as living evidence of the escalating and somewhat paradoxical impact of unchecked economic globalization. As Susan George noted, globalization sounds like a process by which all people around the world are increasingly united within a growing, ever more inclusive socioeconomic sphere; in fact, it is a trend by which:

**“Millions of people suddenly discover that they have become superfluous, unnecessary both to production and consumption. Whereas progressives used to rail against exploitation, today it’s almost a privilege to be exploited—at least you still have a job and a role. Although these redundant multitudes are now living all over the planet, they might as well be invisible.”<sup>16</sup>**

Addressing social exclusion begins with noticing and interrogating the invisibility of “the poor.” It begins with conscious, deliberate questions about who is not in the room and who is not included in social and commercial spaces. It requires asking: Who is not part of this civic decision-making process? Who is not part of this workplace? Who is not represented in this sociocultural world? The answers will almost always point to those living in poverty. They will also undoubtedly point to people of colour, women, sexual minorities, people with disabilities and other marginalized groups.

The chapters of this report can thus be integrated within a social exclusion perspective, yielding a wide-ranging compendium of the forms that exclusion takes in the lives of people living in poverty:

- **Exclusion from basic mainstream services and resources.** Health, developmental and cognitive research has revealed that poverty—in creating stressful environments and obstructing income-poor families’ access to mainstream services—damages the bodily health, the emotional well-being and the cognitive functioning of income-poor children and adults.
- **Exclusion from mainstream educational, training and vocational gateways.** Research has identified numerous ways that bar people affected by poverty from accessing academic and training opportunities. Overcoming these barriers requires a shared commitment between the private and public sectors to invest in institutions and practices that foster a sense of agency and resilience in low income groups, as well as provide opportunities for people living in poverty to engage in meaningful, dignified work.
- **Exclusion from global reserves of human resources and entrepreneurship.** Empowered global citizens make up the worldwide human capital and human resources that lie at the heart of economic



development. The community of people who make up this resource can be seen as both contributors to and beneficiaries of their participation in this system—their participation as workers and consumers is essential to a nation’s economy, and it also enfranchises them as world citizens. But people living in poverty currently are largely excluded from such enfranchisement.

- *Intergroup and interpersonal exclusion through social barriers.* Society’s continuing marginalization and scapegoating of “the poor” is supported by a constellation of attitudes, assumptions, stereotypes and biases that deepen, perpetuate and sanction their exclusion. Moreover, gaps in understanding and empathy characterize the interactions of mainstream individuals with “the poor”—gaps that can render even the most well-intentioned efforts to help as ineffective, shortsighted and patronizing.
- *Exclusion from the social protections and safe life spaces that permit the development of roles in the broader economic world.* Behavioural economists have illuminated the connections through which the marginalized, depleted, stressful environments of poverty preclude the development of long-term economic decision-making and other work-related human capabilities.

So, poor people’s social exclusion encompasses both the tangible and intangible harm of poverty. Moreover, each form of exclusion tends to exacerbate other forms, making pathways out of poverty even more elusive. From their disenfranchised position on the margins, it is difficult to imagine that income-poor people can turn back these broad global trends solely through their own undertakings, even with the well-intentioned but short-term support that conventional charity offers. It is thus necessary to explore the links between the social determinants of multidimensional vulnerability and the adoption of interventions grounded in community mobilization. What should follow is collaboration by the rest of society. First is deciding to refute the continuing exclusion of people living below the poverty line. And second is taking deliberate collective action to include them. The private sector can play a much more substantial role towards poverty reduction and social inclusion, which can be further tapped into with the support and enabling of strategic cross-sector partnerships.

## CRITICAL ENABLERS

This report shows how various private sector efforts—whether through corporate social responsibility (CSR), social enterprise, inclusive business or mainstream business—can contribute to removing barriers to poverty reduction. The public sector, international organizations and development agencies, academia, nongovernmental organizations, innovative financing and technology all can help guide, encourage and facilitate a greater role for the private sector (figure 7.1).

### Public sector

Governments can help enable the private sector to remove barriers to poverty reduction. They can ensure social standards are met and level playing fields exist for all investors. They also need to ensure that domestic resources are mobilized for pressing developmental issues. Supporting such efforts, governments have a central role in gathering critical data and making it public.

Partnerships across all sectors—public, private, philanthropic and social—are increasing collaborative problem solving and service provision across the developing world. Enterprises operating independently



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often lack the skill set to understand the barriers to poverty reduction in a local context and the capabilities to overcome them. These essential partnerships combine the innovation and efficiency of the private sector with the public policy expertise of governments (box 7.1). Working in tandem, these multistakeholder parties can unlock the potential of disadvantaged and socioeconomically excluded pockets of humanity. But to enhance such partnerships, the necessary legal and regulatory frameworks must be established. This requires concerted efforts and the necessary space to do so (box 7.2).

### BOX 7.1 THE TURKISH COOPERATION AND COORDINATION AGENCY

As the primary channel for sharing the Turkish development experience and financial/in-kind resources with developing countries, the Turkish Cooperation and Coordination Agency leverages the private sector in partner countries, engaging in several ways:

- As a facilitator, transferring Turkish entrepreneurial know-how to partner countries.
- In collaboration with relevant governmental agencies and business associations, providing support to business

matchmaking processes between Turkish companies and local private sector in partner countries.

- Contributing to physical and institutional capacity building in recipient countries over the course of two decades.
- Implementing domestic models of private sector-led vocational training programmes at the international level, jointly organized with Turkish chambers and business as-

sociations, to increase employability, business performance and incomes in partner countries.

One of the most important preconditions for success is the involvement and ownership of private actors. To achieve this, the Turkish Cooperation and Coordination Agency is trying to raise awareness among Turkish investors and explain to them that they will simultaneously benefit from their participation in skill development programmes in partner countries. Simply, better skilled labour boosts productivity.<sup>17</sup>

### BOX 7.2 FACILITATING PUBLIC-PRIVATE DIALOGUE ON POVERTY REDUCTION

In the spring of 2014, the Parliament of Australia launched an inquiry specifically aimed at investigating “Opportunities to expand the role of the private sector in promoting growth and reducing poverty in the Indo-Pacific region.” The inquiry’s terms of reference include examining:

- The current role of the private sector in accelerating the pace of economic growth and in reducing poverty in poor countries in the Indo-Pacific region.

- Legislative, institutional, social and policy constraints that may reduce the ability of private sector agencies to engage in development.
- Additional partnerships, activities or financial instruments the Australian government could use to enhance the role of the private sector in development in the Indo-Pacific region.
- The role of public-private partnerships in leveraging private sector investment in developing countries.

The inquiry indicates an increasing understanding and shift towards a more inclusive dialogue on poverty alleviation, one that sees the private sector as a critical partner in development. The public hearings are an example of providing the necessary space for businesses to voice their ideas, concerns and constraints, which in turn can lead to better informed public policy on this issue. Such efforts are critical enablers that can help facilitate a greater and more strategic role for the private sector in poverty reduction.<sup>18</sup>





Public-private partnerships can also be encouraged through government incentive schemes, taxes on such “bads” as pollution, regulations ensuring safe labour conditions and fair pay, and standards to advance best practices. In addition to organizing these services, governments can offer subsidies for social goods such as skill-creation programmes in partnership with businesses to rapidly fill the gaps for skills in demand. Some industries, such as healthcare, often require a concerted effort that combines public resources with private sector innovation. Governments also need to invest in the infrastructure to facilitate or connect markets to areas of the country that may otherwise prove too difficult for businesses to operate in.

When examining the role that governments can play in enabling the private sector, it is necessary to differentiate between the private sector’s components, such as multinational corporations, large firms and businesses within a country, and small and medium enterprises. Government policies, interventions and partnerships will vary depending on which component is being dealt with. For example, partnerships between government and multinational companies or large firms within countries need to be executed in such a way to ensure that citizens are beneficiaries, and that the relationship is not seen by the public as simply transfer of income and public assets to wealthy corporations. As governments can enhance the internal business environment to create opportunities for private sector to grow and prosper, it also must balance this with policies that hold businesses accountable to their obligations, and to ensure that their operations contribute to shared prosperity and social sustainability. Incentives and policies that ensure accountability need to go in tandem to ensure a fair and equitable distribution of resources and benefits.

Local and municipal governments also have much to contribute. Advisory mechanisms for discussing the policies to fight urban poverty and manage urban development bring together stakeholders from all sectors. Both to cooperate with the private sector and improve transparency and accountability, local authorities can establish a permanent independent council or committee to work under the municipal assembly. Such mechanisms can prevent duplicating aid to the same places and allow for an integrated aid system with follow-ups and more efficient divisions of effort. Integrating all sectors from the beginning—instead of bringing them in only after policies have been determined and a roadmap drawn—can increase the willingness of the private sector to invest in efforts to foster development and reduce poverty.<sup>19</sup>

Tendering is one of the best tools for public-private cooperation in development. The European Union has restructured its tender regulations under “green tenders” or “social tenders” for buying goods and services that give priority to employing the unemployed and to environmental sustainability. Authorities can initiate social responsibility projects as part of the bidding process on government tenders. For example, a health tender for a poorer neighbourhood could include a social responsibility project within the tender itself, such as cataract scans for all the elderly. And in urban transformation projects, people living in the area could be given priority to be employed as part of the project. As detailed above, despite the ability of private sector—led initiatives to reduce poverty, governments have a key role in facilitating even more efforts towards this end.

### **International organizations and development agencies**

International organizations and development agencies have an enormous role in developing international codes of practice for CSR activities, which help track environmental indices like carbon, waste and water emissions, health and safety, collective action and wages. These include ISO 26000, the Global Reporting Initiative, the OECD Guidelines for Multinational Enterprises and the UN Global Compact Principles (box 7.3).



**BOX 7.3 UN GLOBAL COMPACT PRINCIPLES**

**Human rights**

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.

**Labour**

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and

- Principle 6: the elimination of discrimination in respect of employment and occupation.

**Environment**

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

**Anticorruption**

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.<sup>20</sup>

Multilaterals can also help focus attention on critical developmental issues, convene parties from diverse sectors, generate and disseminate knowledge and best practices and ensure implementation of internationally agreed developmental goals. Development agencies can mediate CSR initiatives, especially those directed towards poverty reduction. They can also work with businesses to promote inclusive business models—for example, through challenge funds where development agencies allocate matching grants on a competitive basis.

Whereas efforts, particularly from the private sector and governments, may face various sources of pressure to delivering quick outcomes—such as the number of people with access to a service—these approaches can come at the expense of institutional capacity building. Development agencies thus play a key role in facilitating long-term capacity development as they are less likely to face the same pressures elected officials or business directors may face towards delivering quick outcomes.

*South-South cooperation*

The important role of South-South and triangular cooperation in overcoming global poverty is reflected in the growing volumes of South-South trade, South-South development cooperation and South-South institutional capacities. Building sustainable cross-boundary and cross-regional linkages among private players, governments and civil society allows for more cost-efficient and effective solutions to emerge from the Global South. Approaches can be seamlessly transferred, adopted and scaled up in comparable developmental contexts, leveraging the capacity of the private sector through people-centred impact investments.



The Global South-South Assets and Technologies Exchange—one of three key elements of the UN-supported Global Multilateral Support Architecture for South-South Cooperation—is a transaction and services platform that facilitates exchanges of technology and assets for inclusive growth in developing countries. As a global matchmaking system, it facilitates business-to-business linkages by leveraging public-private partnerships and providing such value-added services as finance, training and advisory support.

## Academia

Many products and services that businesses offer—and that generate shared value for all in the marketplace—have their genesis in innovations within the walls of the academy. Universities also generate knowledge of the local context, which is crucial for businesses expanding operations in lower income countries. Academia helps to spread this knowledge by convening parties from government, civil society and the private sector to advance common agendas for poverty reduction and to spread best practices (box 7.4).

### BOX 7.4 FROM THE LAB TO THE REAL WORLD

A critical enabler of entrepreneurial success, especially an SME, is finance. But entrepreneurs in lower income settings face challenges as they often lack the necessary information and paper trail to establish a financial track record. This situation inspired Harvard University's Entrepreneurial Finance Lab to determine the knowledge, skills, abilities and other personal characteristics (KSAOs) of successful SME entrepreneurs. It reviewed well-established findings from higher income settings and a growing body of research from lower income settings to hypothesize what KSAOs might be relevant to success as an entrepreneur. Operating in multiple emerging economies, the researchers used psychometric assessments of the personalities and abilities of actual entrepreneurs seeking bank loans. That helped banks in low and middle income countries decide

which entrepreneurs would be the most likely to succeed in their business, repay their loans and continue to create the economic spillover effects of entrepreneurship that support human development.<sup>21</sup>

The IOTech4D lab at North Carolina State University uses insights from the psychology of human behaviour at work to understand how technology can assist global human development. The lab has conducted research on a variety of topics, from corporate social responsibility to international skills development. For example, the lab has investigated what factors encourage people from high to lower income countries to volunteer online for projects that help reduce poverty. Of particular importance to all of the research in the IOTech4D lab is the way in which socioeconomic development shapes

the world of work—especially people's use of technology at work. A major barrier to understanding this important issue is the lack of detailed information about work at the base of the pyramid. The lab's primary tools in overcoming this barrier come from the systematic measurement of work—also known as "work analysis." The use of these work analytic tools by the lab has helped organizations at the base of the pyramid both identify training and organizational development needs and understand exactly how to address those needs with specific and effective interventions.<sup>22</sup>

The work of the Entrepreneurial Finance Lab and the IOTech4D lab are but two examples of the pioneering role that academia can play in catalysing private sector action in development and poverty reduction.



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To promote private sector engagement with poverty reduction, academia can conduct research, translate research findings into practical advice for the private sector and other relevant stakeholders, partner directly with the private sector and involve students in poverty alleviation.

Applied research can also help remove barriers to private sector engagement. Researchers can identify the factors that facilitate or prevent private sector actors from engaging in poverty-reduction efforts. They can determine the most effective methods for the private sector to reduce poverty, ranging from specific CSR activities to mainstream business practices.<sup>23</sup> And they can evaluate the developmental impact of the private sector's poverty-reduction efforts.<sup>24</sup>

Academia can translate findings into actionable recommendations, guidelines for efficient poverty-reduction practices, and evaluations of the effectiveness of specific approaches. For example, professional associations can hold custom designed sessions and conferences for members of the business community that focus on both presenting research findings to practitioners and training participants on how to implement the findings in their organizations. These sessions could be especially beneficial if held more often in settings at the base of the pyramid where research capacity can be empowered the most. More cross-sector conferences and roundtables on poverty alleviation would be a positive step towards enabling academics and private sector actors to come together with representation from the base of the pyramid to share theories and practices.<sup>25</sup>

Through research, practical dialogue, learning, training and close partnerships, academia and the private sector can create positive cycles of knowledge and skill development that can promote poverty reduction and enhance businesses' deliberate efforts in this domain. A key element in this process is knowledge sharing and dissemination.

### Nongovernmental organizations

Nongovernmental, civil society organizations have multiple roles in helping the private sector address barriers to poverty reduction. Civil society actors are frequent recipients of CSR funding, with capabilities in noncommercial areas that can help with the design of internal programmes. Nongovernmental organizations (NGOs) often carry a legitimacy that businesses may lack, and their status as a trusted member of the community can be leveraged for local contacts, knowledge and expertise. These assets are valuable for CSR projects, social entrepreneurs and inclusive businesses.

Civil society can work with businesses to uncover instances where profit meets purpose, as in the design of inclusive supply chains, and to identify positive externalities from investments. Multistakeholder partnerships that engage base-of-the-pyramid community decision-makers and provide jobs in a more inclusive business model will contribute to the well-being of workers and raise their skills for future value-added employment (box 7.5). NGOs often also act as "watchdogs" for foul play against low income communities' interests, raising awareness of key issues facing the most vulnerable and voiceless and building the capacities of low income groups.



There are different kinds of foundations and NGOs, and their added value will differ depending on their areas of expertise, size and location. Because of their size, influence and focus, large NGOs such as the Bill & Melinda Gates Foundation or the Global Fund can shift markets and development outcomes in such areas as the fight against malaria. Other foundations specialize in local or sector-specific areas such as extractive industries, and work to change private sector conduct, or in shaping opinion and influencing the global discourse. Developing country foundations often play a major role locally, but few are consequential at the global level.

### BOX 7.5 THE INCLUSIVE BUSINESS ACCELERATOR

Low income communities with aspiring consumers and creative entrepreneurs present a combined market value of \$5 trillion in Africa, Asia and Latin America. Profits for the business and wealth creation for people living in poverty go hand in hand. This is the powerful model of inclusive business that involves people affected by poverty in sustainable market-based business.

But the lack of appropriate business development services and venture capital are holding the private sector back from inclusive business. Businesses lack market insights and ways to overcome poor infrastructure. They require knowledge on

producers and the regulatory framework, and they need risk capital. Finding the right business partners to overcome these hurdles used to be a cumbersome process.

The Inclusive Business Accelerator helps overcome these hurdles by providing one window for all services related to inclusive business. It combines three elements:

- The IB Accelerator Collective brings together market intelligence, business scoping services, strategic partners and business networks.
- The IB Accelerator Local consists of a network of local offices in countries

such as Uganda, Vietnam and Mozambique. These local platforms of inclusive business advisory services are run by local experts. They help companies identify business opportunities, collect market intelligence, design a business, provide technical support, identify the right partners and get access to finance.

- The IB Accelerator Online is an open innovation platform that connects social innovators, business coaches, impact investors and businesses. It is a marketplace for ideas, knowledge, business support and venture capital.<sup>26</sup>

Interacting with NGOs and social entrepreneurs, the private sector can gain knowledge and insights to target customers, run up the learning curve much faster than competitors, and expand its markets and enter new ones. It can even attract and retain talent because such endeavours will require entrepreneurs who can spot opportunities and devise creative solutions to poverty-related problems.

### Innovative inclusive financing and impact investing

After the Millennium Development Goals were adopted amid much fanfare by the United Nations in 2000, it quickly became apparent that official development assistance would be insufficient to meet the targets. Subsequent attention has turned to nontraditional mechanisms to help finance the development goals, beyond development aid and the global marketplace. These mechanisms include microfinance, social impact bonds, development bonds, patient capital and social impact insurance. Such financial innovations are often grouped as impact investments, differing in method and structure but sharing a hybrid focus on both social and financial returns.



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Impact investments are made with the intention to generate a social and environmental impact, linking socially desirable outcomes with the realities of running a business and the market imperatives of generating a return on capital. Impact investments direct capital to projects that combine a social purpose and a sustainable business model, giving them access to resources that would be otherwise unavailable and allowing them the opportunity to scale. Though the financial returns from impact investing are sometimes comparable with mainstream private equity, the real importance of impact investment is its ability to attract capital to ventures that would otherwise have no access to finance. Examples include unbanked small and medium enterprise (SME) entrepreneurs who benefit from microfinance (box 7.6); development bonds, in which financial returns to investors are based on social outcomes; and patient capital, which accepts a lower rate of return than traditional venture firms, and allows promising larger enterprises, too large for microloans, to test and refine their business model and finance sunk costs such as research and development. In critical domains such as agribusiness development or financial inclusion, providing subsidized capital funding upfront can generate necessary impetus for investments that would otherwise not take place. Thus to incentivize more difficult risk capital, blended financing can play a crucial role.

One of the most valuable resources is patient capital. Developing local capacities takes time. Due to all the barriers described in the report, behavioural changes and learning within target populations take time. But both investors and donor agencies today seek rapid results. To reduce any of these barriers, the means of leverage for development must integrate longer horizons that can be achieved through innovative finance mechanisms (box 7.7).

### BOX 7.6 AMK, CAMBODIA—MOBILE BANKING INSTALLATION

Angkor Mikroheranhvatho Kampuchea (AMK) is a large microfinance institution with 112 branches and more than 300,000 clients. Software Group has been supporting AMK with the development and implementation of electronic banking solutions geared towards enhancing scalability and efficiency of financial services delivery including mobile money transfer (MMT), automated teller machines (ATMs), card management, SMS alerts and integration with the central bank.

In December 2011, AMK launched its MMT system to expand the reach of financial

services to clients and unbanked customers through a network of local agents and branch offices to provide banking services including deposits, withdrawals and money transfers. Independent agents use a Khmer language mobile application to complete transactions for customers, and a web application allows branch tellers to provide even more advanced services. Software Group has also provided products that enable AMK tellers to access their core banking system from any Internet-enabled location. AMK's MMT system increases the accessibility of financial services to clients' savings, encouraging clients to save their

money safely and securely.

In 2013, AMK launched an ATM pilot and complementary card management system. It can now offer clients a broader range of outlets to transact using their personalized debit card to access their AMK account. It has implemented SMS to deliver alerts and notifications to staff who are responsible for monitoring the ATM network and are increasing the functionality of this application to increase communication with their customers to provide notifications about account activity and reminders about account status.<sup>27</sup>



### BOX 7.7 INCENTIVES TO ENCOURAGE PUBLIC-PRIVATE PARTNERSHIPS— THE ENTERPRISE CHALLENGE FUND

Operating from 2007 to 2013, the Enterprise Challenge Fund (ECF) of the Australian Agency for International Development was a pilot programme that provided competitive grants to businesses in Asia and the Pacific. The ECF accepted applications from businesses that targeted long-term inclusive growth while prioritizing innovative pro-poor solutions. Against established milestones, businesses combined their own contributions with ECF funds to make available stable jobs, opportunities for increased incomes, and more equitable access to vital goods and services. For example, one company in Papua New Guinea received \$170,000 to establish a processing facility for spices, allowing local vanilla farmers to

seek direct employment and sell for higher prices. In all, ECF grants amounted to \$11 million for 21 projects across eight countries.

Challenge funds are versatile financing mechanisms as they draw in capital investment and encourage stakeholders to develop innovative development initiatives. A competitive call for proposals and match-based distribution ensures that there is buy-in and contribution of private capital. Because they make available funds to projects that may otherwise be unable to obtain commercial funding, challenge funds can effectively pioneer new approaches and stimulate pro-poor commercial endeavors.<sup>28</sup>

#### *Microcredit*

Providing access to finance has been the main niche of social investors. While supply-leading approaches with government-subsidized credit and donor-sponsored programmes dominated the postwar era, different social investment mechanisms evolved as an alternative to finance people living in poverty. Tackling economic barriers and expanding access to finance with a single tool of microcredit was just a start. After decades of microfinance programmes and endless debates about whether credit empowers or harms the poor, social investors came to understand that delivering financial products sustainably and profitably is possible only when the target group is defined as “economically active poor” or “low income groups.”

This was not only a key to understanding the sustainability element of the credit tool, but also a catalyst for developing microfinance into a full range of products including savings, insurance and money transfers. Furthermore, lending organizations have adopted a more integrated approach and started tackling barriers with the involvement of various stakeholders, including the beneficiaries of such products and programmes. Tailoring a product to demand (say, through focus groups) and adding social components have contributed to the success of many lending organizations (box 7.8).

### BOX 7.8 BRAC’S CREDIT AND TECHNICAL ASSISTANCE TO ENTERPRISES

While many lending programmes target people close to or slightly above an official poverty line, BRAC in Bangladesh has been targeting the “ultra-poor”. The

programme has several components, including transfers of assets (poultry and cages, milk cows and stables), income-generation workshops, technical support

to microenterprises, and even health services. Some components are seen as preparatory to BRAC’s microfinance programme.<sup>29</sup>



Social investors have gone through a long past of discovering the world of people affected by poverty, experimenting with tools and learning from their mistakes. Now they have become more sensitive to the demands of their clients and more sophisticated in their solutions to improve the lives of people living in poverty. Today social investors are going beyond financing small-scale economic activities and looking into opportunities in agriculture, energy, health and education.

## **Technology**

Technology, particularly information and communication technology (ICT), is growing rapidly in accessibility—including at the base of the pyramid. By the end of 2014, there will be almost 7 billion mobile-cellular subscriptions worldwide, and more than two-thirds of Internet users will be from lower income countries.<sup>30</sup> In Sub-Saharan Africa, mobile-cellular telephone subscriptions jumped from 12.0 per 100 people in 2005 to 59.3 per 100 people in 2012.<sup>31</sup> Despite such tremendous growth, great disparities in access to information technology remain. In 2012, while 75.4% of residents in high income countries used the Internet, only 6.2% in lower income countries did so.<sup>32</sup>

Information technology has the potential to disrupt, or to reinforce, barriers to poverty.<sup>33</sup> It alters the way people work. It shifts pathways to information and resources. And it reshapes the ways that people relate to one another. For example, while the Internet can facilitate productive social and professional interactions and reduce opportunities for discrimination based on disability or racial identity, online communication technologies can also lead people of diverse social identities and cultures to make unwarranted judgments about each other.<sup>34</sup> In addition, job and education opportunities posted online might be missed by those without Internet access, but they can be accessed by people living in poverty through alternative information technologies.<sup>35</sup> And in the health sector, access to mobile phones can foster learning and knowledge exchange among health professionals and improve management and decision-making, or a lack of access can ensure that people in low income rural environments go without critical health information available to others.<sup>36</sup>

As chapter 4 illustrated, the three major ways that information technology can affect poverty reduction are also three ways in which they can affect people's empowerment, including in the workplace. Whether ICTs will have a positive impact on employment of people living in poverty is largely determined by whether people at the base of the pyramid can and want to use them (box 7.9).





### BOX 7.9 FINANCIAL INCLUSION AND ALTERNATIVE DELIVERY CHANNELS

Financial inclusion cannot be achieved without accelerating access to financial services. Financial service providers, including microfinance institutions (MFIs), have invested heavily in analysing the financial behaviour of the unbanked and underbanked populations and designing products. Microloans, low balance savings accounts, microinsurance and mobile money transfers are specifically tailored to meet their needs. But large-scale distribution of these products and services remains a challenge. The focus must now shift to affordable and convenient channels that can reach and adequately serve the 2.5 billion unbanked market.

Alternative delivery channels (ADCs), which expand the reach of services beyond the traditional bank branch model, have emerged as a result of innovations in ICTs and a shift

in consumer expectations. They rely heavily on specific technologies that enable the instant transmission of financial and non-financial information. These technologies increase efficiency through automation, reduce operational costs and improve service quality by cutting waiting times.

Transformative in nature, ADCs accommodate the demand for access to financial services “anytime, anywhere, anyhow.” For the financial service providers that have embraced the challenge of financial inclusion, particularly MFIs, the potential of ADCs has long been an alluring concept. The need to improve operational efficiency and expand outreach cost-effectively has heightened interest and expectations of ADCs and accompanying technologies among MFIs. But technology is consistently cited as one of the greatest challenges facing MFIs around the world.<sup>37</sup>

ADCs can not only transform the way in which financial services are being delivered—but they can also change the landscape of providers by lowering entry barriers for nontraditional players, such as mobile network operators and payment service providers. Unlike these new players who have extensive experience with dynamic technologies and innovative distribution channels, many small financial service providers lack the technical capacity to implement ADC technology. For those who have tried ADCs, the experience is often disappointing—as many end up with a platform that is clunky, inflexible or costly. So for many financial service providers, the world of ADC technology, with the wide range of channels, technology platforms, communications and device options, can be daunting.<sup>38</sup>

Effective ICT use is not simply a question of having a cellular phone and subscription. People must have access to the ICT and then also have both the skills to use it for a given purpose and the motivation to do so.<sup>39</sup>

The private sector can support the poverty-disrupting potential of ICTs. Internal CSR can directly support ICT-empowerment at work by providing ICT tools and training to employees and then offering incentives and goals for employees to enhance their ICT skills. Similarly, external CSR efforts can help give local communities access to ICT tools and skill-development opportunities, but they can also help ensure that meaningful and helpful content exists in local languages—an important determinant of ICT motivation.<sup>40</sup> For example, enterprises in healthcare could help develop mobile-phone-based resources for community health workers in their own language. Indeed, a wide range of mobile and Internet technologies have been developed, either as nonprofit or social entrepreneurship initiatives, to assist health professionals, teachers, entrepreneurs, farmers and other professionals and paraprofessionals at the base of the pyramid.<sup>41</sup> Often, these initiatives focus either on for-profit business concerns or approach the issue of technological empowerment from a nonprofit perspective; increasingly however, many documented interventions are generating new opportunities for social entrepreneurship (chapter 1) by focusing on both empowerment and business priorities (chapter 4).<sup>42</sup>



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FIGURE 7.1 CRITICAL ENABLERS

	GOVERNMENT	INTERNATIONAL ORGANIZATIONS AND DEVELOPMENT AGENCIES	ACADEMIA
CSR	<ul style="list-style-type: none"> <li>Incentivize firm CSR performance</li> <li>Develop standards for reporting of developmental impact of CSR</li> <li>Engage corporate sector in strategic planning such as infrastructure and workforce needs</li> <li>Define national development goals to provide overarching framework for CSR activities</li> </ul>	<ul style="list-style-type: none"> <li>Partner with private sector and other stakeholders (government and nongovernmental organizations) to support and facilitate CSR initiatives that are based on best practices that can result in measurable impact in communities</li> <li>Share knowledge of best practices in other countries that can be replicated and scaled</li> <li>Continue to support the development of codes of conduct like the UN Global Compact</li> </ul>	<ul style="list-style-type: none"> <li>Conduct research into development-oriented CSR criteria and best practices</li> <li>Research the link between internal CSR and poverty reduction—for example, in terms of income mobility</li> <li>Support research and analysis of current issues and programmes that will advance social and development goals</li> <li>Sponsor innovation and collaborative thought leadership around development goals and challenges</li> <li>Undertake research that translates academic knowledge into practical applications that the private sector can implement in real world</li> </ul>
SOCIAL ENTERPRISE	<ul style="list-style-type: none"> <li>Establish public-private partnership laws and procurement laws facilitating social enterprise involvement in public services and encouraging social innovation</li> <li>Recognize social business—specific legal status and tax exemption</li> <li>Introduce social entrepreneurship training in high-school curriculum</li> <li>Support advisory services for social entrepreneurs and help them take their idea to fruition</li> <li>Incentivize firm social enterprise performance</li> <li>Develop standards for reporting of developmental impact of social enterprise</li> <li>Set goals and targets for social enterprise in sectors and countries</li> <li>Promote successes</li> <li>Work with fair trade organizations to ensure supply chains pay government living wages to base-of-the-pyramid employees</li> </ul>	<ul style="list-style-type: none"> <li>Link different actors across development processes to support social enterprise development</li> <li>Implement projects through social enterprises on a contractual basis</li> <li>Provide resources and facilitate training in entrepreneurship</li> <li>Assist with evaluation of the developmental impact of social enterprise work</li> <li>Set goals and targets for social enterprise in sectors and countries, while promoting successes</li> <li>Provide grants to social enterprises, and facilitate access to patient capital</li> </ul>	<ul style="list-style-type: none"> <li>Document, develop action research and evaluate social innovation in situ, through participatory methods that build local capacity for decision-making, use multimedia to capture and promote activities and achievements</li> <li>Conduct research to analyse the ecosystem of entrepreneurship in a country or region with identification of the main players</li> <li>Improve the circulation of innovative ideas within the system—for example, the Tunisian Center for Social Entrepreneurship</li> <li>Provide more case studies on success and failures of social enterprises</li> <li>Conceptualize innovative ideas and models and support social entrepreneurs with scalability and management support</li> <li>Conduct research into development-oriented (triple bottom line) social enterprise criteria and best practices</li> </ul>
INCLUSIVE BUSINESS	<ul style="list-style-type: none"> <li>Develop standards for reporting of developmental impact of inclusive business</li> <li>Engage with stakeholders on behalf of governments in fragile states, to ensure transparency and compliance with funding requirements of official development assistance donors</li> <li>Incentivize inclusion of marginalized groups—for example, the Indian government has introduced job quotas for certain classes that have been exploited</li> <li>Establish financing programmes (subsidies for agricultural inputs, loans for education or housing) to expand access to goods and services to lower income individuals—for example, the government programme ICETEX in Colombia enables students to access financing for education</li> <li>Include capacity building for departments and ministries involved in public-private partnerships</li> <li>Establish public-private partnerships or contract the private sector to deliver last-mile water, energy or health services</li> <li>Provide grants to support feasibility studies for inclusive business—for example, JICA launched its “Preparatory Survey for BOP Promotion” to provide funding to companies in the market research and business model development stage and has awarded funds to more than 70 projects</li> <li>Promote an enabling environment for inclusive business through legal empowerment for the base of the pyramid; strengthen property rights; ensure consumer protection as well as broader business enabling environment measures</li> </ul>	<ul style="list-style-type: none"> <li>Support local businesses through programmes such as Australia’s Enterprise Challenge Fund; coinvest in business development; foster relationships between multinational organizations and governments through inclusive business models</li> <li>Provide financing—for example, IFC committing \$11 billion since 2005 to more than 400 inclusive businesses in various sectors</li> <li>Act as a consultant to regional organizations—for example, with the African Union to develop sustainable agricultural schemes</li> <li>Provide technical assistance and expertise to companies to help them scale or reach new market segments—for example, IFC not only provides financing but also offers global and local expertise in inclusive business, regional and sector market insights, best practice and effective solutions from the existing inclusive business clients, established global network</li> <li>Provide an open database for spending of base-of-the-pyramid populations to help companies lower the upfront cost of identifying inclusive business opportunities or replicate their modes in different countries (such as Global Consumption Data)</li> </ul>	<ul style="list-style-type: none"> <li>Work from multiple case studies; identify factors for success and innovation</li> <li>Develop innovative products to expand operations in lower income countries such as leadership schools to generate future knowledge of domestic labour market</li> <li>Provide local, cultural, social and economic information to inform business decision-making</li> <li>Conduct research into development-oriented inclusive business criteria (triple bottom line) and best practices</li> <li>Research the effects of connecting developed-world consumers of goods and commodities with base-of-the-pyramid producers</li> </ul>
MAINSTREAM BUSINESS	<ul style="list-style-type: none"> <li>Identify and support sectors that contribute the most to poverty reduction in the national context</li> <li>Ensure that there is an appropriate regulatory environment that allows for formalization of businesses with potential to grow</li> <li>Simplify processes and bureaucracy of starting and licensing a business</li> <li>Promote compliance and adherence to sound business practices through a transparent regulatory environment</li> </ul>	<ul style="list-style-type: none"> <li>Convene public and private stakeholders and disseminate knowledge on best practice to promote collaboration and catalyse business growth</li> <li>Support local businesses through programmes such as Enterprise Challenge Fund; coinvest in business development</li> <li>Foster relationships among companies, multinational organizations and governments</li> </ul>	<ul style="list-style-type: none"> <li>Analyse case studies on the base of the pyramid to showcase opportunities for mainstream businesses, and engage with them at industry conferences and initiatives</li> <li>Undertake environmental studies, business analysis, regional benefits and prefeasibility studies critical for business success</li> <li>Provide local, cultural, social and economic information to inform business decision-making</li> </ul>



NONGOVERNMENTAL ORGANIZATIONS	INNOVATIVE INCLUSIVE FINANCING AND INVESTING	TECHNOLOGY
<ul style="list-style-type: none"> <li>Establish specific community targets for CSR programmes, such as those in the Niger Delta supported by local organizations and oil companies</li> <li>Partner with corporations to ensure best practices in aid and development work</li> <li>Assist with evaluation of the developmental impact of CSR work</li> <li>Broker links between government and the private sector</li> <li>Use nongovernmental organizations to introduce and pilot new socially beneficial technologies and products such as solar-power lights, thus demonstrating market potential</li> <li>Liaise between the private sector and communities to identify the needs of the community and present them to the private sector for action</li> <li>Work with the private sector to help it understand and develop a social licence to operate in communities</li> <li>Facilitate the actual implementation of private sector CSR initiatives in communities as a trusted and on-the-ground stakeholder in the community</li> <li>Help implement CSR projects with the facilitating company by providing expertise and resources</li> </ul>	<ul style="list-style-type: none"> <li>Bring external CSR efforts to scale. For example, if companies establish an entrepreneurial training academy in their sector, financing can support the aspiring entrepreneurs</li> </ul>	<ul style="list-style-type: none"> <li>Use information technology to form employee-to-employee and business-to-business CSR partnerships between either high and low income settings (where high income is devoted to supporting and helping low income) or low to low income settings (supporting each other by engaging in internal and external CSR)</li> <li>Help provide access to the Internet and assist people at the base of the pyramid with developing critical ICT skills</li> <li>Develop a near field communication system to disperse microcredits</li> <li>Establish product portfolio and create online platform for women entrepreneurs to sell and market their products</li> <li>Use social media for CSR projects including social messaging, target population identification and outreach</li> <li>Explore technology as a method of enabling the organization to interact with poorer communities</li> <li>Use ICT to overcome skills and knowledge gaps; leapfrogging technologies in developing countries can stimulate innovative processes, rapid response measures and flexible learning options. For example, Wings Cambodia</li> <li>Develop affordable models of technology products for resource-constrained contexts, such as extra cell-phone battery attachments for reduced prices</li> </ul>
<ul style="list-style-type: none"> <li>Nongovernmental organization projects may create business opportunities, such as new SMS services or context-specific equipment for low income populations</li> <li>Nongovernmental financing projects for small and medium enterprises may create new opportunities for the expansion of microfinancing projects</li> <li>Provide access to low income communities, working with poor through philanthropic and charity funding to meet social goals</li> <li>Partner with corporations to ensure best practices in aid and development work</li> <li>Assist with evaluation of the developmental impact of social enterprise work</li> </ul>	<ul style="list-style-type: none"> <li>Social enterprises rely on impact investing capital to finance startup and operations costs. As impact investors seek opportunities to harness the positive power of enterprise for social good, there is significant overlap with the social enterprise sphere</li> <li>Impact investing funds can be tied to requirements that social enterprises and inclusive businesses adhere to international best practices and reporting standards</li> <li>Small-scale social enterprises need to be investment-ready, and impact investing needs to have a longer duration before the venture becomes profitable</li> </ul>	<ul style="list-style-type: none"> <li>Adapt technology solutions to meet local needs—for example, solar cell recharge stations for mobile phones and devices</li> <li>Use technology to lower market entry costs, lower operating costs and make otherwise unsustainable business models more feasible</li> <li>Cheap ICT technology can facilitate the study of an enterprise's social impact</li> <li>Mobile technology allows for new business models in developing and post-conflict countries, such as mobile telecom firms like Roshan in Afghanistan, which provides millions with telecom access and mobile financial services</li> <li>Pilot business models and delivery channels to provide access to renewable energy and other green technologies, such as solar and rechargeable lanterns, improved cookstoves, solar kits and solar home systems</li> <li>Big data and social media analytics can be used to better understand and respond to the needs and vulnerabilities of the local population, helping social enterprises identify possible opportunities for products and services</li> </ul>
<ul style="list-style-type: none"> <li>Help implement community development programmes; provide training and capacity building; help with implementation of last-mile services—for example, Rainforest Alliance partners with companies to provide training and certification programmes for smallholder farmers</li> <li>Provide local legitimacy and connection for inclusive business opportunities. Local knowledge of stakeholders provides access for engagement</li> <li>Partner with corporations to adhere to best practices in aid and development work</li> <li>Assist in particular with evaluating the developmental impact of inclusive business work</li> <li>Broker links between government and the private sector</li> <li>Produce low-cost products tackling barriers (water filters, solar lamps, toilets) and disseminate them among the poor. There might be a lack of demand or misuse of products unless there is prior educational work conducted by nongovernmental organization—for example, mosquito nets were used as fishing nets in some African villages</li> </ul>	<ul style="list-style-type: none"> <li>Help make alternative financing available</li> <li>Crowdfund—for example, a crowdfunding operator works with a Peruvian credit cooperative, I-DEV, providing a platform to assist small Peruvian farmers while raising funds from retail investors online</li> <li>Promote risk-sharing facilities that mitigate perceived risk in investing in inclusive business, particularly those that extend credit to the base of the pyramid (such as farmers)</li> <li>Patient capital, which allows for longer term and lower-than-market rate returns</li> <li>Examples of impact investment funds in the inclusive business space include Ingnia, LeapFrog, Root Capital or FIRST fund</li> </ul>	<ul style="list-style-type: none"> <li>New connectivity tools like video demonstrations for training, call centre support and online support help expand access to knowledge</li> <li>Develop apps to help farmers identify specific weather conditions affecting crops, prices for a minor usage fee with possible links to other local businesses of relevance</li> <li>Use technology to lower market entry costs, strengthen supply chain commitments and build alternative supply routes</li> <li>Mobile payments enable unbanked populations to have access to financing and banking—for example, an inclusive mobile money provider offers a wide range of services to facilitate financial transactions through mobile phone-based “electronic wallets” (such as YellowPepper). Other companies that employ this type of technology offer both microfinance loans disbursement and payments (such as Roshan in Afghanistan)</li> </ul>
<ul style="list-style-type: none"> <li>Partner with government and private sector organizations—for example, to provide affordable school facilities</li> <li>Partner with employers to support their recruiting and skills training needs</li> <li>Provide access to communities, and facilitate creative solutions to immediate needs through community problem-solving</li> </ul>	<ul style="list-style-type: none"> <li>Help scale up successful business models through impact investing</li> <li>Direct funds to key sectors that can ameliorate business disadvantages at the base of the pyramid</li> </ul>	<ul style="list-style-type: none"> <li>Transform and penetrate markets through cutting-edge tools</li> <li>Drive the price of ICT tools down for everyone</li> <li>Create alternate technologies for resource-constrained contexts, including solar power</li> <li>Big data, ethically captured and managed, can be used to help track the links between business practices and outcomes, through decent work policies and practices</li> <li>Use technology in redesigning delivery models, accessing to information and learning, which can lead to change of behaviour and acceptability of products or services</li> <li>Enable innovation through technology—access to global knowledge hubs, collaborative adaption of existing technologies, improvements to generate profit and new solutions to development needs</li> <li>Online government record systems (such as the national eGovernment programme in Turkey) provided by the private sector that facilitate government's ability to identify and provide services to targeted populations</li> <li>Electronic outsourcing of services or technical skills training such as eHealth apps assisting in diagnoses</li> </ul>



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Opportunities to reduce poverty through ICT-related activities also exist for inclusive business. ICTs can facilitate the opportunity to distribute online work tasks globally—for example, by paying contract or permanent employees at the base of the pyramid to edit or translate text online or on mobile phones. Inclusive business practices can not only provide people at the base of the pyramid with employment, but by managing work effectively, their ICT skills can be enhanced through positive work cycles. Examples of such management practices include providing feedback to crowdsourced workers.<sup>43</sup> Improving the effectiveness of ICT-based inclusive business efforts, like many ICT interventions in general, must take into account unique psychological and managerial factors that emerge from ICT-mediated work, and that often determine the failure of ICT interventions, especially at the base of the pyramid.<sup>44</sup>

The continuing engagement of mainstream business is of central importance to ICTs' ability to reduce poverty. People's use of new information technologies is shaped in part by those technologies' perceived benefits and ease of use.<sup>45</sup> Continuing innovation and development of new and compelling ICT tools in a free and competitive marketplace is a major mechanism to promote, continue and accelerate widespread ICT adoption and cost-reduction.

### Notes

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## CHAPTER 2

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## CHAPTER 3

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