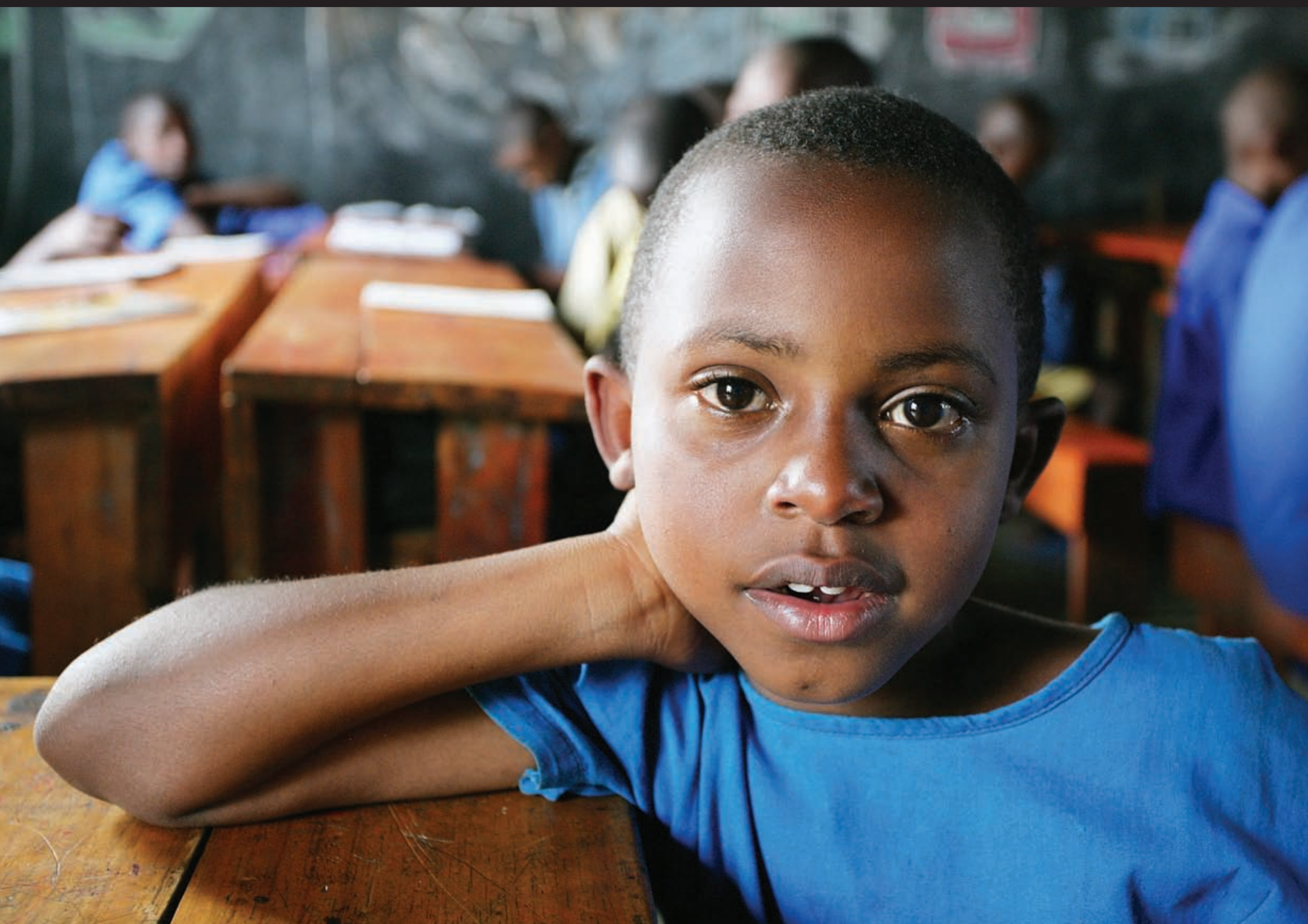
Building Young Futures

Background to the Barclays/UNICEF global partnership



By Marcus Cox and Catherine Cameron

Agulhas
Applied Knowledge

Executive summary

Barclays and UNICEF have launched a strategic partnership – "Building Young Futures" – to pursue their common interest in supporting vulnerable young people around the world. The goal of the partnership is to help young people acquire the skills and opportunities they need to realise their potential as full members of their communities. A suite of projects has been identified across a number of countries, based around the three themes of education, employment and entrepreneurship. This paper presents the development philosophy behind the partnership, and shows how the interventions link in to contemporary thinking and best practices in community development.

The partnership draws on the human development approach and the idea of "human capabilities" developed by Nobel laureate Amartya Sen. Sen argues that economic growth is merely a means of achieving development, and not the development process itself. He has promoted an alternative understanding of development, centred on helping people realise their potential. At the heart of Sen's development philosophy is the idea of human agency – the ability of people to control their own destinies. The role of development assistance is twofold: to remove external limitations on individual capabilities (like malnutrition, ill-health, social exclusion and other social ills), and to provide institutional supports to expand them (e.g. education).

The three themes of the partnership are grounded in the human capabilities approach. Employment and entrepreneurship are the principal routes out of poverty for poor communities. Education and training are essential preconditions for both. Investments in these areas, targeted at vulnerable young people, can help to create economically empowered citizens able to break free of the poverty cycle.

The International Labor Organization estimates that there are over 88 million unemployed young people (aged 15 to 24) around the world, comprising half the world's total unemployment. Across the developing world, young people are four times more likely to be unemployed than older workers. This is partly a result of developing world demography. The youth population of sub-Saharan Africa is estimated at 138 million, and is growing so rapidly that around 8 million new jobs would be required each year simply to keep pace with new entrants into the labour market. Similar patterns are observable across large parts of Asia and the former Soviet Union.

Youth unemployment is also a result of the serious barriers faced by young people in entering the labour market. Poor educational attainment and lack of experience puts them at a severe disadvantage. They are the last to be hired when times are good, and the first to be laid off when times are bad. Those who have missed out on a basic education have little prospect of catching up.

The lack of decent work for young people carries serious economic and social costs. Unemployed and frustrated youth are most likely to be drawn into drug addiction, prostitution and crime – social problems with serious consequences for the wider community. It is also a missed opportunity. Young people are a vital source of innovation and energy. They can be a conduit for new ideas and new technologies – precisely what businesses in the developing world need if they are to become competitive.

So what can be done to help young people become active participants in the economy?

Education is essential to tackling youth unemployment. Without basic education, young people have little or no chance on the job market. Education is also the key to a decent job – that is, one with a level of productivity that merits a decent income.

We are still a long way off achieving the UN Millennium Development Goal of universal primary education. Across the developing world, there are 72 million children out of primary school, of whom the majority are girls. Among those who attend school, attendance is often irregular, repetition of grades is common and educational outcomes poor. In sub-Saharan Africa, only 60 per cent of children complete primary school and two-thirds of young people are functionally illiterate. While there have been major international campaigns in recent years to achieve universal primary education, many of today's young people have missed out in this most basic of opportunities.

Against this background, the development returns from investments in continuing education for young people can be very high. The impact is felt by the individual, in terms of higher future earnings and greater self-reliance. It is also felt by their families, who are likely to experience better health and expanded life opportunities. Programmes providing basic literacy and numeracy to those who have missed out on schooling can make a major impact in poor communities.

Employment is the most important route out of poverty. To tackle poverty successfully, developing countries need to promote employment growth, particularly in the sectors where poor people have the best chance of participating. It also requires investments in building up the skill base in poor communities. At present, the value added per worker in sub-Saharan Africa is 13 times lower than that of a worker in the developed world. Skills development has benefits both for the individual worker, in the form of higher wages, and for enterprises, which become better placed to make use of new technologies and business techniques.

Entrepreneurship is the other main route out of poverty. Many workers in developing countries are self-employed, but they typically engage in activities of such low value-added that they pay less than a basic wage. To develop real business opportunities, they need training (literacy, marketable skills, basic business practices). They also need financial services, including microcredit, banking and insurance. Microcredit in particular has emerged as one of the major development success stories in recent years.

The Barclays/UNICEF partnership is an example of how companies are moving beyond traditional corporate philanthropy, and beginning to develop new business models that help to generate social and economic development, while at the same time building long-term business opportunities. The 4 billion people at the bottom of the economic pyramid (living on less than $5 a day) represent a major business opportunity, if their potential can be developed. Businesses are using "blended-value investments" that combine social impact with market development. They are developing low-cost products and services that are accessible to poor households, together with innovative production and distribution systems that benefit local businesses.

The financial sector is ripe for investments of this kind. The "Building Young Futures" partnership can help encourage habits of saving and investment, contributing to economic empowerment. Over the longer term, it can also help Barclays by bringing more people into the formal economy, where they will have a need for financial services.

Table of contents

1 Introduction

© UNICEF/HQ96-1390/Giacomo Pirozzi

Barclays and UNICEF have embarked on a strategic partnership – "Building Young Futures" – to pursue their common interest in supporting vulnerable young people around the world. The goal of the partnership is to help young people acquire the skills and opportunities they need to realise their potential as full members of their communities. A suite of projects has been identified, based around three themes:

i) **education,** including improving school completion rates and providing literacy training and life skills for those who have missed out on formal schooling;
ii) **employment,** including targeted vocational training to assist young people from poor communities to enter the workforce;
iii) **entrepreneurship,** including helping young people to acquire the skills, knowledge and opportunity to pursue business opportunities, and providing them with access to financial services.

This paper presents the development philosophy behind the partnership, and shows how its activities link in to contemporary thinking and best practices on community development. These conceptual foundations will help the partners ensure that their investments deliver the maximum benefits for the communities being supported.

The partnership draws on the human development approach, and specifically the idea of "human capabilities" developed by Nobel laureate Amartya Sen. This approach is all about empowering individuals to become active agents in their own development – the key idea behind the partnership's focus on empowering young people to achieve a brighter future.

The paper describes the returns that can be expected on investments in the three thematic areas, in terms of individuals, communities and societies. It also discusses the latest thinking on how business can contribute to development and achievement of the United Nations Millennium Development Goals (MDGs) through "blended value" investments that deliver social and economic benefits to poor communities, while at the same time helping to develop future markets and business opportunities.

2 The human capability approach

Over the past two decades, there has been a major shift in the way we think about development, from an exclusive focus on economic growth to a wider set of concerns with "human development". Human development is a broader concept of well-being, which encompasses freedom from social ills like hunger and ill-health, and opportunities for individuals, families and communities to achieve their aspirations.

In his famous work *Development as Freedom*,[1] Novel Prize-winning economist Amartya Sen writes that economic growth is merely a means of achieving development, and not the development process itself. He has promoted an alternative idea of development, centred on helping people to realise their potential. He argues that the essence of development is enlarging people's choices.

Sen's work has helped persuade the development community to rethink its mission. First, the Human Development Indicators were adopted as a way of comparing levels of development across countries, using three measures: life expectancy (as a proxy for health); literacy (representing education); and *per capita* income (representing access to the material necessities of life). These in turn developed into the Millennium Development Goals (MDGs) – a set of 8 targets adopted by all the major development actors in 2000 (see box), covering income, education, health and the environment.

The human development approach has also changed the way we think about development assistance. In the past, *underdevelopment* was understood as a lack of knowledge and financial resources that could be supplied by outsiders through development projects. Implicitly, the poor were treated as passive recipients – as *objects* of development assistance.

By contrast, the work of Sen shows us that development is something that must be done *by people*, not to them. At the heart of Sen's development philosophy is the idea of human agency – the ability of people to control their own destinies. The human capability approach is all about helping people to become their own agents of change.

There are two key ideas behind Sen's work. The first is human aspirations (Sen calls them "functionings"). These are the elements that make up a fulfilling existence – for example, being healthy, educated, holding a decent job, being able to support one's children, and feeling part of a family or community. Aspirations are specific to particular individuals or societies, and Sen does not attempt an exhaustive list – everybody is entitled to their own vision of the good life.

The second concept is "capabilities". Capabilities are the possibilities open to individuals to achieve their aspirations. This is where development assistance comes in. Individuals decide what to do with the options available to them. The role of development assistance is to expand their choices.

Expanding human capabilities is both a means of achieving development, and a goal in its own right. For example, literacy is very important for development – it enables individuals to engage in productive work, access public services and contribute to society.

The Millennium Development Goals (MDGs)

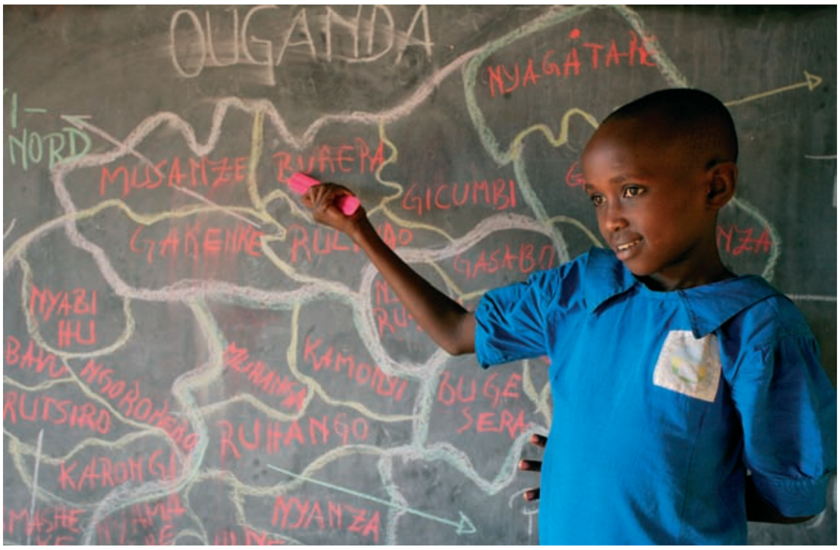
The MDGs were adopted at an international summit in 2000 as a set of universal targets for development. They are a means for developing countries and donors to measure their joint progress on human development. The eight goals are:

1. Eradicate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality and empower women
4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS, malaria and other diseases
7. Ensure environmental sustainability
8. Build a global partnership for development.

1 *Sen, Amartya, Development as Freedom (Oxford: OUP, 1999).*

But literacy (or freedom from ignorance) is also part of what development is seeking to achieve. Many development goals – from tackling preventable diseases to providing clean water to promoting civil liberties and democracy – have this dual aspect of being ways of promoting development and at the same time intrinsically valuable.

So how can outsiders help to increase human capabilities? Sen writes that an individual's capabilities are determined not just by her own talents and effort, but also by an external environment over which they may have little control. For example, a young girl who is unable to attend school, or who suffers from malnutrition or ill health, has the cards stacked firmly against her. Whatever her choices or innate capabilities, her chances in life are severely curtailed. She is trapped by a poverty of opportunity.



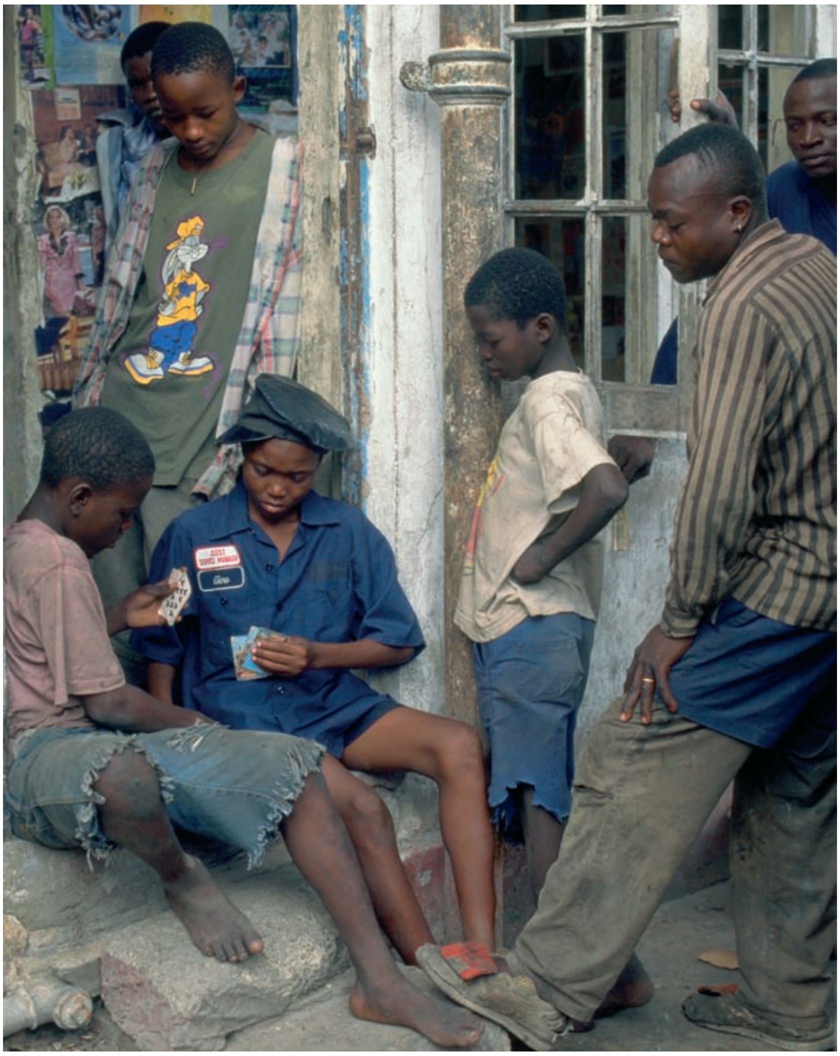
© UNICEF/HQ07-1385/Giacomo Pirozzi

Conversely, the institutional support she receives – from her family, the community or the state – can dramatically transform what she is able to achieve on the basis of her own agency. It is still up to her to make use of the opportunities available, but a supportive institutional environment gives her the chance to do so.

The role of development assistance is therefore twofold: to remove external limitations on individual capabilities, and to provide institutional support to expand them. All development interventions can be seen through this lens.

Sen's human capability approach is particularly appealing because it reconciles the role of the market with the importance of a supportive social environment. Sen identifies the capacity to participate in the free market as one of the most important of all human capabilities. Only by allowing the poor to become active participants in the economy, as employees or entrepreneurs, do we have any chance of tackling poverty. Yet Sen recognises that, in developing countries, there are a whole range of social constraints that prevent poor people from competing in the market on anything like fair terms. If they are to succeed, they need support to overcome these barriers. It is precisely here that a programme like "Building Young Futures" can make its contribution.

3 The challenge of youth unemployment



© UNICEF/HQ96-1394/Giacomo Pirozzi

If poor people are to escape from poverty, they need access to decent work for fair pay. Employment is without question the most important route out of poverty for poor communities.

Yet unemployment remains desperately high across the developing world. According to UN figures, the average unemployment rate across sub-Saharan Africa was 10.9 per cent in 2003 – the highest of any developing region.[2] Yet this represents only the tip of the iceberg. Official unemployment figures capture only those who are without jobs and actively looking for work. On top of this, there are discouraged workers, who have given up the search. And then there are the working poor – people who, for want of a better option, have settled on work which is too poorly paid to support their families.

The ILO calculates that there are 486.7 million workers around the world earning incomes that do not allow themselves and their families to reach the extreme poverty line of $1 a day. A further 1.3 billion earn less than the $2 a day general poverty line.[3] Many of these are working in low productivity jobs in the informal sector, as itinerant labourers or traders. With inadequate and uncertain incomes, it takes very little to push them into destitution.[4]

2 *Economic Commission on Africa, "Economic Report on Africa 2005: Meeting the Challenges of Unemployment and Poverty in Africa", 2005.*

3 *ILO, "World Employment Report 2008", Geneva, 2008, p. 10.*

4 *International Labor Organization, "World Employment Report 2004-5", Geneva, 2004; ILO, "Key Indicators of Labor Market", Geneva, 2005.*

5 *ILO, "Global Employment Trends for Youth", Geneva, 2004.*

6 *Ibid.*

7 *Economic Commission for Africa, op. cit., p. 58.*

8 *Kanyenze, Mhone & Sparreboom, "Strategies to combat youth unemployment and marginalisation in Anglophone Africa", ILO Discussion Paper 14, Harare, 2000.*

If we look more closely at the figures, we find that young people dominate the ranks of the unemployed and working poor. The ILO estimates that there are over 88 million unemployed youth (aged 15 to 24) around the world, comprising half of the world's total unemployment, and nearly two-thirds in Africa, the Middle East and Latin America. Across the developing world, young people are four times more likely to be unemployed than older workers.[5]

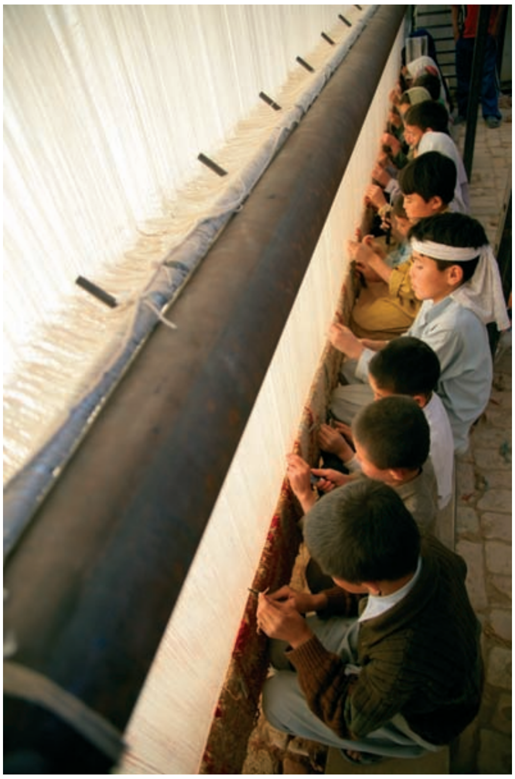
This is partly a result of developing world demography. With high population growth, many developing countries face a "youth bulge" (exactly the reverse of the greying population found in wealthy countries). The youth population in sub-Saharan Africa was estimated at 138 million in 2003.[6] This number continues to grow at an accelerating rate, despite the heavy impact of HIV and AIDS. The UN estimates that sub-Saharan Africa would need 8 million new jobs each year simply to keep up with the new entrants into the labour force.[7]

Youth unemployment is also a result of the serious barriers faced by young people in entering the labour market. Poor educational attainment and lack of experience puts them at a severe disadvantage compared to older workers. The scarcer the jobs, the greater the selection by education and experience – precisely the assets that young people from poor communities struggle to acquire. This makes them the last to be hired when times are good, and the first to be laid off when times are bad. When they do find work, it is most likely to be poorly paid, short-term work in the informal sector, without decent working conditions or opportunities for advancement. One survey in South Africa found that 40 per cent of unemployed youth had given up altogether on looking for work.[8]

The lack of decent work for young people carries serious economic and social costs. Unemployed and frustrated youth are most likely to be drawn into drug addiction, prostitution and crime – social problems with serious consequences (externalities) for the wider community. The dangers are particularly acute in rapidly growing cities in the developing world. Young people who have moved into an urban environment from the countryside in search of opportunities may find themselves not only without work, but lacking in shelter and support networks, leaving them highly vulnerable to exploitation. In the worst cases, this can lead to the breakdown of law and order. In megacities like Lagos, Rio de Janeiro and Dhaka, certain slum areas have become "no go" areas for police as armed gangs have taken over.

But high youth unemployment is not just a danger to developing countries. It is also a missed opportunity. Young people are a vital source of innovation and energy. They can be a conduit for new ideas and new technologies – precisely what businesses in the developing world need if they are to become competitive. Countries that can harness this potential are certain to reap the economic benefits.

4 Is growth the solution?



© UNICEF/HQ06-0349/Giacomo Pirozzi

One of the most debated topics in development is whether economic growth is the answer to unemployment and poverty reduction. The answer that has emerged in recent years is a qualified "yes, but".

Increases in overall output (GDP growth) are in most circumstances a precondition to employment growth, and employment growth is the main route out of poverty. It is hard to imagine any developing country beating poverty without growth.

Yet the experience across much of the developing world in recent decades is that poverty has been stubbornly unresponsive to economic growth. In Africa, annual GDP growth increased steadily from less than 3 per cent in 1998 to nearly 5 per cent in 2004.[9] Yet unemployment figures have remained constant, and poverty has been on the increase.

There are a number of explanations for this. First, growth is often concentrated in sectors that don't require a great deal of labour. The economies in the developing world most likely to be growing are those dominated by the extractive industries – oil and mining. These are capital-intensive sectors: they depend on high-tech machinery, not large labour forces.

Another reason is that the poor have been unable to take advantage of the opportunities that a growing economy offers. Growth tends to benefit the rich much more than the poor. This is part of the logic of capital accumulation: the rich have property which can be used to secure credit for investment, to acquire more wealth. By contrast, the poor tend to be poorly educated and are often in ill health, making them unattractive employees. Without assets, they are unable to access credit markets (other than at extortionate rates from local money lenders). If they go into business for themselves, it tends to be in very low value-added activities (e.g., street vending) that pay less than a decent wage. The inherent disadvantages of the poor prevent them from benefiting, even when the economy is growing. Economists call this "multiple equilibrium chronic poverty traps" – which simply means that the poor have no route out of poverty. The more unequal the society, the more severe the trap.

For this reason, development policy has shifted towards the idea of promoting "pro-poor growth" – a type or quality of growth that provides opportunities for poor people to participate and benefit. It is about increasing equality of opportunity in the economic sphere. This has led to a range of policy ideas at the macro-level, such as encouraging the development of labour-intensive industries, and changing regulations to make it easier for small enterprises to emerge and prosper. It also has an important bottom-up dimension. Poor people need to be equipped with the skills and opportunities that enable them to participate in economic life.

9 *Economic Commission for Africa, op. cit., p. 5.*

5 Empowering young people

What, then, can be done to empower young people to participate in the economy? It is clear from this discussion that there are two primary routes out of poverty: employment and entrepreneurship. Both of them depend critically on education and training.

5.1 Education

Education is essential to tackling youth unemployment. Without basic education, young people have little or no chance on the job market. Education is also the key to a decent job – that is, one with a level of productivity that merits a decent income.

We still have a long way to go to achieve the MDG for universal primary education. Across the developing world, the latest figures (2005) show 88 per cent of primary school-age children are enrolled in school. This adds up to 72 million children who do not attend primary school, of whom the majority (57 per cent) are girls. However, for many poor children who are enrolled in school, attendance is irregular, repetition of grades is common and educational outcomes are poor. One in five children in developing countries old enough to attend secondary school are still in primary school. Only 60 per cent of African children successfully complete primary school, and only 15-25 per cent go on to complete secondary school.[10]

The quality of education remains a persistent problem. Poor public-sector working conditions lead to high rates of teacher absenteeism, while infrastructure, textbooks and materials are often inadequate. The result is that 62 per cent of young people (15-24) in the Least Developed Countries are functionally illiterate in their mother tongue.[11] In addition, education curricula are poorly suited to the needs of the labour market. The UN Economic Commission for Africa reports that most secondary and university education is oriented towards public-sector jobs, leaving young people uninterested in careers in business. Yet at the same time, surveys show that more than 20 per cent of firms rate inadequate skills of workers as a major or severe obstacle to their operations.[12]

Against this background, it is clear that the returns for poor communities from educating young people can be very high. Educated people are more competitive on the job market, and more likely to find jobs that generate enough income to provide for themselves and their families. They are better able to access public services. They are more likely to be active members of their communities, and to contribute to a more productive economy. According to the Asian Development Bank,

> "the opposite of marginalization is empowerment, and basic education is one of the keys to empowerment, both for individuals and groups. The combination of increased earning ability, political and social empowerment, and enhanced capacity to participate in community governance is a powerful instrument for helping break the poverty cycle. In fact, education is the primary vehicle by which economically and socially marginalized adults and children can lift themselves out of poverty."[13]

10 United Nations, "The Millennium Development Goals Report 2007", 2007.

11 Ibid., Statistical Annex: http://mdgs.un.org/unsd/mdg/Resources/Static/Data/Stat%20Annex.pdf.

12 World Bank, "World Development Report 2005: A better investment climate for everyone", 2005, p. 136.

13 Asian Development Bank, "Education and poverty reduction: strategy paper", 2006.

5

There are a range of studies documenting the returns available on investments in education. The economic return on education is usually defined as the extent to which it succeeds in raising individual earnings. The table below sets out the results of one recent study on the economic return on education expenditure across a number of African countries, according to different levels of education.[14] The figures suggest a return of 8.9 per cent to primary education, 14 per cent to secondary and 22.7 per cent to higher education.

Returns on expenditure on education in Africa

	Primary	Middle	Secondary	Higher
Ghana (1998)	11.0	3.9	12.0	44.0
Côte d'Ivoire (1987)	15.0	14.0	22.0	16.0
Kenya (1994)	—	11.0	7.4	21.0
South Africa1 (1993)	—	7.3	22.0	32.0
South Africa2 (1993)	—	1.4	20.0	20.0
Nigeria (1999)	1.6	—	4.0	12.7
Burkina Faso (1998)	7.9	—	10.9	12.9
Africa	**8.9**	**7.5**	**14.0**	**22.7**

Source: Schultz, 2004.

This is supported by figures from OECD countries, which suggest an average rate of return of 8 per cent on each additional year of schooling. While post-secondary education is relatively more important for explaining growth in OECD countries, primary and secondary schooling are more important in developing countries.[15]

The economic returns, however, are only part of the overall development returns. One study lists the non-market or social returns of education as:

- its effects on a person's health, and that of their spouse, and its consequent impact on lowering the costs of health care;
- its effects on fertility choices, reducing family size;
- the effects of a wife's education on her husband's earnings;
- its effects on efficiency of consumer choice, labour market search, adaptability to new jobs and savings rates;
- its contribution to charitable giving and volunteer activity;
- its effect on social cohesion, including democratic participation, reduced alienation and lower social inequalities;
- its effect on reducing reliance on welfare and other social programmes;
- its effects in reducing criminal activity, and consequently the costs of the justice system;
- the effects of average education levels in a given community (particularly among young adults) on school attendance and completion rates.[16]

14 *Schultz, T.P., "Evidence of Returns to Schooling in Africa from Household Surveys: Monitoring and Restructuring the Market for Education", Journal of African Economies, vol. 13(2): 95-148, 2004.*

15 *Riddell, Craig, "The social benefits of education: new evidence on an old question" in Frank Iacobucci & Carolyn Tuohy (eds.), Taking Public Universities Seriously (Toronto: University of Toronto Press, 2005).*

16 *Riddell op. cit.*

> "Basic education empowers individuals by opening up avenues of communication that would otherwise be closed, expanding personal choice and control over one's environment, and providing the basis for acquiring many other skills. It gives people access to information through both print and electronic media, equips them to cope better with work and family responsibilities, and changes the image they have of themselves. It strengthens their self-confidence to participate in community affairs and influence political issues. Basic education is the key with which individuals can unlock the full range of their talents and realize their creative potential. It gives disadvantaged people the tools they need to move from exclusion to full participation in their society. Basic education also empowers entire nations because educated citizens and workers have the skills to make democratic institutions function effectively, to meet the demands for a more sophisticated workforce, to work for a cleaner environment, and to meet their obligations as parents and citizens."
> Source: UNESCO, "Adult Education in a Polarizing World", Paris 2007

Education also offers important inter-generational effects. Children from poor families are less likely to attend school, due to the direct costs (fees, uniforms, supplies, transport), the opportunity costs from lost child labour, or simply a lack of belief in its value. Poor families may decide to withdraw their children early from school, or to deny schooling to girls. When children drop out of the education system, it virtually guarantees a continuation of the poverty cycle.

Conversely, a sound education supports not just the individual, but their families as well. The education of girls is particularly important in this regard. The children of educated mothers have better health and nutrition, and are less vulnerable to HIV infection, abuse and neglect.[17] Each year of maternal education is thought to reduce child mortality by 5 to 10 per cent. Furthermore, educated mothers are twice as likely to send their own children to school,[18] creating a virtuous circle. For this reason, former UN Secretary General Kofi Annan stated: "There is no tool for development more effective than the education of girls."

This suggests two key priorities in the education field. One is programmes to boost school attendance. This means identifying the specific factors holding back school attendance in particular communities (e.g., high costs, inadequate transport, child labour or abuse of children at school), and designing interventions to address them.

The other priority is to help older children and young adults who, for one reason or another, have missed out on a basic education. Programmes for this group can combine basic literacy with vocational and life skills that help them recover from a position of disadvantage.

5.2 Employment

It is clear from the discussion so far that decent employment is probably the most promising route out of poverty. To tackle poverty successfully, developing countries need to promote employment growth, particularly in the sectors where poor people have the best chance of participating. Quality of employment matters, as well as quantity. To avoid creating more "working poor", jobs should involve enough value added to produce decent incomes for workers. In recognition of these challenges, in 2006 the international development community added a new target under the first MDG: reaching full and productive employment and decent work for all, including women and young people.

There are many measures that can be taken at policy level to promote decent employment (e.g., changes to business regulations, trade relations, employment rules, financial markets and so on). However, to be effective, these must be accompanied by measures to improve the individual capacities of poor people – what the World Bank calls "human capital". Improved capacities should mean more and better jobs. At the present, the value added per worker in sub-Saharan Africa is 13 times lower than that of a worker in the developed world.[19]

17 Ibid., p. 61.

18 UNESCO, "EFA Global Monitoring report", 2006, p. 33.

19 ILO, "Global Employment Trends 2008", Geneva, 2008.

Measures to boost individual productivity include improving health and education, addressing discrimination and other social barriers, and providing child care and other measures to support working women. Improvements in productivity have benefits both for the individual worker and for the enterprise. For the worker, it should mean more jobs and higher wages. For the enterprise, it means greater capacity to make use of new technologies and business techniques, greater competitiveness and more profits to reinvest in business expansion or share with workers and shareholders. With many firms in developing countries reporting shortage of skilled labour as a problem, increasing skills in the workforce removes one of the chief constraints on enterprise growth.

At the macroeconomic level, productivity growth fuels aggregate demand, by creating more workers with disposable income to spend, who in turn consume the products of enterprises. Greater productivity also stimulates consumption through the price channel. By producing more with less, firms in a competitive market are able to lower their prices, which is equivalent to an increase in real incomes. Overall, productivity levels are a major determinant of any country's standard of living.

Increasing the employment prospects of excluded young people could be achieved through a range of programmes. Basic literacy is obviously important, as is vocational training, which should be targeted to the specific needs of local business. In fact, training programmes developed in conjunction with local businesses are most likely to be effective. Subsidised apprenticeship schemes also create opportunities for young people to gain skills and work experience.

5.3 Entrepreneurship

Aside from formal employment, the other main route out of poverty is entrepreneurship. In statistical terms, entrepreneurship is represented by the rate of creation of new businesses. In reality, however, it is very difficult to measure entrepreneurship, because most start-ups in developing countries are in the informal sector, operating below the radar screen of statistics agencies.

In one sense, there is no shortage of entrepreneurship in the developing world. In the absence of social safety nets, the unemployed are obliged to engage in some kind of entrepreneurial activity in order to survive. However, without skills or capital, they take up such low value-added activities that they earn less than a basic wage.

This kind of entrepreneurship is not a route out of poverty. Informal sector workers live and work under harsh conditions. They have no access to risk-coping mechanisms, such as insurance, pensions or social assistance. Shocks such as illness or theft of property may therefore be enough to leave them destitute. Lacking collateral, they cannot access the credit market, although working capital may be borrowed from friends and family, or from loan sharks at exorbitant rates. Without enough income to save, they have little chance to reinvest their earnings in creating a profitable business.

Informality can be a serious barrier for small businesses. In his famous study of the informal sector in Peru, Hernando de Soto found that the poor had assets, especially housing. However, unclear legal status and insecure property rights prevented them from offering their assets as collateral. It is therefore "dead capital", which cannot be used to fund further investments.[20] Encouraging small business into the formal economy may therefore be one strategy for promoting more profitable entrepreneurship. However, faced with burdensome regulations, high marginal tax rates and corrupt officialdom, many small enterprises prefer to remain in the informal sector. In countries like Nigeria, the informal sector accounts for as much as 75 per cent of GDP.[21]

Promoting entrepreneurship as a route out of poverty therefore means helping the self-employed and micro-businesses to develop their operations, and ideally make the transition into the formal economy. There are a range of programmes that might contribute to this. Basic education (literacy and numeracy) is of course an essential precondition to most business activities. Beyond that, the poor need saleable skills – for example, in trades or other services, or in low capital-intensive manufacturing. Vocational training needs to be targeted to specific market opportunities in local communities. Beyond that, there is a need for training in basic business skills – how to keep accounts, for example, or prepare simple business plans. Business management is a skill that can be readily taught. Where the target is young people who have been excluded from the formal education system, vocational training is also an opportunity to build self-confidence.

The other core need of micro-businesses is for financial services targeted to their specific circumstances. All entrepreneurial activity involves risk, and the poor, who live so close to the edge financially, tend to be risk averse. Financial services (bank accounts and mutual associations) can help to mitigate risk by encouraging savings. Small-scale insurance products can be developed. Cooperative arrangements and joint ventures with established businesses can also help by sharing risk.

Perhaps the most critical need of small entrepreneurs is for working and investment capital. Traditionally, capital markets have been very unfriendly to small operators, partly because they lack collateral, and partly because the sums they require are too small to be profitable. Private banks have therefore tended to ignore the micro-business sector.

However, in recent years microcredit has emerged as one of the big success stories in development assistance. Microcredit schemes are targeted at poor people who are not at present bankable – that is, they have no collateral, formal employment or verifiable credit history – and cannot access conventional commercial banking services. They have helped many thousands of poor households into self-employment and micro-business activities.

Microcredit is highly compatible with the human capability approach. Compared to social welfare payments or charity, it is an empowering form of assistance, giving individuals control over their own destiny. Microfinance enables small entrepreneurs to smooth over irregular income, weather shocks and expand their productive activities. Studies have shown that microfinance not only boosts household income, but also offers additional benefits for borrowers and their families, including greater food security, improved housing and greater use of education

20 De Soto, Hernando, The Other Path: The Invisible Revolution in the Third World, trans. June Abbott (New York: Harper & Row, 1989).

21 Klapper, Leora et al, "Entrepreneurship and firm formation across countries", World Bank Policy Research Working Paper No. 4313, 2007, p. 4.

services.[22] Individuals who take on the discipline of repaying a loan also obtain a practical lesson in financial management, and the confidence and self-respect that comes from managing their finances effectively.

Many microcredit programmes are designed specifically for women. There is evidence that lending to women is most likely to benefit the family as a whole. Women are often responsible for managing household finances, and represent the better credit risk. In many societies, providing women with access to finance has the additional effect of raising their socio-economic status within the family and the community. This helps to break down gender barriers and empower women to develop their capabilities.

Many microcredit programmes are also designed to build social capital among poor communities. For example, they may favour groups of borrowers who guarantee each other's performance, and therefore work to support each other's businesses. The basis of successful microcredit is trust, rather than legal enforceability.

Microcredit also helps to develop financial service providers able to operate profitably at the small end of the market. Loans are typically provided by intermediary organisations, standing between a major financial entity, such as a private bank or donor, and the borrower. These intermediaries may be small, community operations, which receive support from a commercial bank in the form of risk-sharing arrangements. The funds they generate are then recycled for further lending, making for efficient use of development resources.

This form of intermediation has proved remarkably profitable. The compound annual growth rate of the world's leading microfinance providers over the last five years has been 15 per cent, making them nearly twice as profitable as the world's leading commercial banks.[23] This suggests that there is ample scope for socially motivated investments in this area.

22 Goldberg, Nathaniel, "Measuring the impact of microfinance: taking stock of what we know", Grameen Foundation USA, December 2005.

23 According to a recent analysis conducted by Consultative Group to Assist the Poor (www.cgap.org). CGAP is a consortium of 33 public and private development agencies working together to expand access to financial services for the poor in developing countries. A November 2001 survey of 62 self-sufficient MFIs gives an average return on assets of 5.5 per cent, comparing favourably to the returns of commercial banks.

6 How can business contribute?

What role can Northern or multinational corporations play in supporting marginalised young people in poor communities, and helping developing countries achieve the MDGs? Throughout the modern era, businesses have recognised an obligation to plough some of their profits back into the community. But corporate philanthropy, however generous, is never going to be enough to make a sizeable impact on poverty in the developing world.

Now businesses are beginning to look beyond charity, to consider how they can change their business models to maximise their contribution to economic and social development. In recent years, businesses have begun to talk about "hybrid approaches", that combine investments based on a company's core competencies and commercial acumen with a desire to deliver social benefits. The idea that business can act as a catalyst for market-driven solutions to poverty reduction is an important new frontier in development thinking and practice.

A challenge on the scale of poverty reduction needs the energy and capacity for innovation that business can offer. At the same time, the four billion people at the bottom of the economic pyramid (living on less than $5 a day) represent a major business opportunity, if their potential can be developed. Companies that find ways to operate successfully in this market can help promote economic empowerment, while at the same time expanding their own business horizons. It is this combination of profit motive and social impact that has development thinkers excited. Jane Nelson writes,

> "Under the right conditions, private enterprises offer the potential to increase innovation, spur wealth creation, transfer technology, raise productivity, meet basic needs, enhance living standards, and improve the quality of life for millions of people around the globe."[24]

Upfront investments of time and effort and lengthy lead times are usually required to develop business opportunities at this level. These kinds of investment offer social and economic benefits in the short term, while having the potential to become commercially viable over the longer term. The World Economic Forum calls this "blended value investing" – private investment strategies and instruments that explicitly include social or environmental considerations.

> "These types of investments inhabit a space between philanthropy, where no financial return is expected and pure financial investments, where social considerations are not a factor and financial profit is maximized."[25]

These blended investments often involve identifying unfulfilled needs among poor communities, and trying to meet them through low-cost products and services. This in turn requires innovations in business models, such as sourcing inputs from local suppliers and using local partners as distributors. By involving poor communities in the business model, it promotes employment creation and entrepreneurship, increasing their spending power and helping to develop them as consumers.

24 Jane Nelson, "Leveraging the development impact of business in the fight against global poverty", John F. Kennedy School of Government, April 2006, p. 2.

25 World Economic Forum, International Finance Corporation & Rockefeller Foundation, "Private Investment for Social Goals: Building the blended value capital market", 2005.

6

The range of blended-value investments is potentially unlimited. Opportunities might include:

- innovations in distribution methods and product financing, to make products and services more accessible to low-income households;
- innovations in product design to benefit the poor, such as foods fortified to improve their nutritional value;
- involving local companies in the supply chain, so that a larger share of the investment returns are retained by the local community;
- mentoring and sharing technology with local businesses, to help them develop into effective business partners;
- providing youth internships and training opportunities, and working with local education authorities or NGOs to ensure that education curricula and vocational training programmes are relevant to the needs of business;
- developing forms of risk sharing with local entrepreneurs, such as unsecured trade credit, to support them in new ventures;
- paying fair-trade prices for agricultural inputs;
- finding low-cost, environmentally sustainable solutions to local infrastructure needs, in particular energy and water.

Activities such as these create bridges between the formal and informal economy, making it possible for local entrepreneurs to expand their operations and generate employment. This in turn builds the purchasing power of the community, making them more attractive as consumers.

Financial products offer significant potential for blended value investments. Developing new financial products – banking, credit, insurance – appropriate for the poor helps encourage savings and investment, increasing disposable wealth. It contributes to economic empowerment, while offering long-term business returns.

Examples of blended value investments

- In 2000, Unilever launched Project Shakti in partnership with NGOs, banks and the Government of India. Women in self-help groups across India were invited to become direct-to-consumer sales distributors for Hindustan Lever's soaps and shampoos. The company provides training in selling, commercial knowledge and bookkeeping to help the women become micro-entrepreneurs. By the end of 2007, there were more than 45,000 Shakti entrepreneurs, covering 3 million homes in 100,000 villages in 15 states.
- The Global Alliance for Improved Nutrition (GAIN) is an alliance that fosters partnerships between governments, the private sector and civil society to use markets to deliver improved nutrition to the poorest.
- The cement producer CEMEX conducted market research to understand housing construction among poor communities in Mexico. Customers were given the chance to pay for cement in small, weekly instalments. Once a payment history was established, cement would be provided on credit. Local companies provided auxiliary services, including design and technical advice. The programme has enabled 120,000 families to build houses at 80 per cent of the cost and in a third of the time.

7 Conclusions

The human capabilities approach provides the Barclays/UNICEF partnership with both a solid conceptual grounding and a practical approach to project selection and development. By helping to build the confidence, skills and opportunities of marginalised young people, this approach can help to unlock their potential and encourage them to become active agents in their own development.

The three themes adopted by the partnership – education, employment and entrepreneurship – are highly strategic choices. Employment and entrepreneurship represent the two primary routes out of poverty. Education and training are preconditions to both. They are often the deciding factor between unemployment and decent work, or between low value-added survival activities and genuine entrepreneurship.

The evidence surveyed here suggests that the returns on investments in these areas for disadvantaged youth should be very high. They are inherently difficult to quantify, depending on myriad local circumstances and the depth of the problems that are being addressed. But experience suggests that helping young people in this way will help them enter into the economic life of their communities, becoming self-supporting and empowered. These benefits should therefore continue throughout their lives. Furthermore, the benefits will be realised not just by the direct beneficiaries, but also their families, who will experience better health, receive better education and in turn have greater prospects for achieving a decent standard of living. Economic empowerment helps households and communities break free of the poverty trap.

The Barclays/UNICEF partnership reflects a new understanding of the contribution that international business can make to achieving the Millennium Development Goals. It takes the idea of corporate social responsibility beyond philanthropy, to harness the skills and innovative capacity of private business to the development process. As a commercial enterprise with its own long-term strategic vision, Barclays has an interest in building up future markets in developing counties. It is doing so through "blended value investments", designed to improve understanding of and access to financial services among poor communities. This will encourage positive habits of saving and investment, contributing to economic empowerment – a clear social return on the investment. Over the longer term, it will also satisfy Barclay's commercial interest in bringing more individuals into the formal economy, where they will have a need for financial services.

Bibliography

Asian Development Bank, "Education and poverty reduction: strategy paper", 2006

Coulombe, Serge, Jean-François Tremblay & Sylvie Marchand, "Literacy scores, human capital and growth across fourteen OECD countries", Statistics Canada Catalogue number 89-552-MIE200411, 2004

De Soto, Hernando, The Other Path: The Invisible Revolution in the Third World, trans. June Abbott (New York: Harper & Row, 1989)

Economic Commission on Africa, "Economic Report on Africa 2005: Meeting the Challenges of Unemployment and Poverty in Africa", 2005

Goldberg, Nathaniel, "Measuring the impact of microfinance: taking stock of what we know", Grameen Foundation USA, December 2005

International Labor Organization, "World Employment Report 2004-5", Geneva, 2004

____________, "Global Employment Trends for Youth", Geneva, 2004

____________, "Key Indicators of Labor Market", Geneva, 2005

____________, "Global Employment Trends 2008", Geneva, 2008

Johanson, Richard & Arvil Adams, "Skills Development in Sub-Saharan Africa", Washington: World Bank, 2004

Kanyenze, Mhone & Sparreboom, "Strategies to combat youth unemployment and marginalisation in Anglophone Africa", ILO Discussion Paper 14, Harare, 2000

Klapper, Leora et al, "Entrepreneurship and firm formation across countries", World Bank Policy Research Working Paper No. 4313, 2007

Kingdon, Geeta Gandhi, "The Pattern of Returns to Education and its Implications", Policy Briefing No. 2, RECOUP, Centre for Commonwealth Education, Faculty of Education, University of Cambridge, 2007

Latifee, H., "The future of microfinance: visioning the who, what, when, where, why and how of microfinance expansion over the next 10 years", Conference Paper, Microcredit Summit Campaign, 2006

Mincer, J., Schooling, Experience and Earnings (New York: Columbia University Press, 1974)

Nelson, Jane, "Leveraging the development impact of business in the fight against global poverty", John F. Kennedy School of Government, April 2006

Riddell, Craig, "The social benefits of education: new evidence on an old question" in Frank Iacobucci & Carolyn Tuohy (eds.), Taking Public Universities Seriously (Toronto: University of Toronto Press, 2005)

Schultz, T.P. 2004. "Evidence of Returns to Schooling in Africa from Household Surveys: Monitoring and Restructuring the Market for Education" Journal of African Economies, vol. 13(2): 95-148

Sen, Amartya, Development as Freedom (Oxford: Oxford University Press, 1999)

United Nations, "The Millennium Development Goals Report 2007", 2007

UNDP, "Human Development Report 1993 – People and Markets", New York, 1993

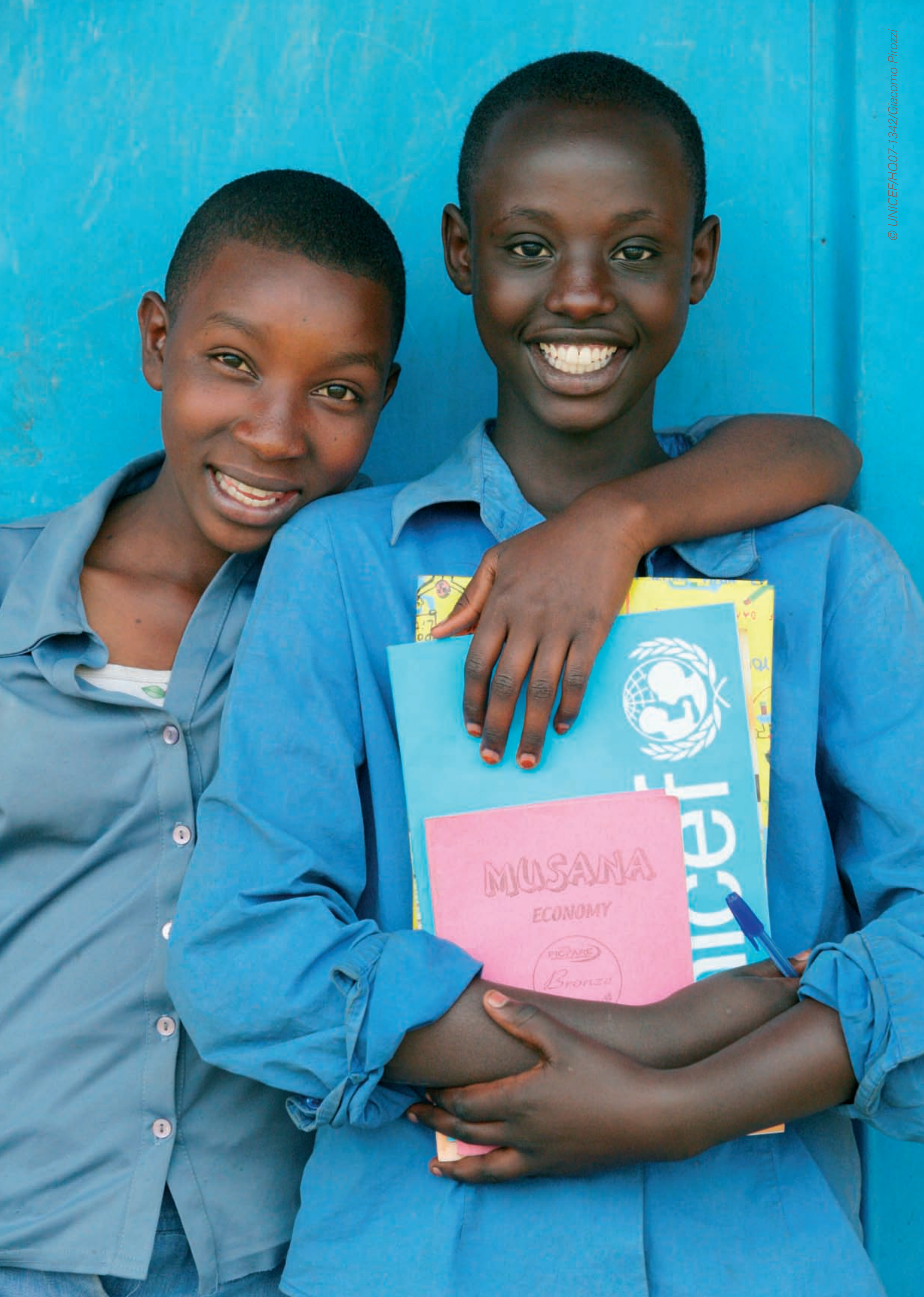
UNESCO, Strong Foundations: Early Childhood Care and Education: EFA Global Monitoring Report 2007 (Paris: UNESCO 2006)

UNICEF, The State of the World's Children 2004 (New York: UNICEF, 2004)

Wendt, Henry & Robert Eichfeld, "Building on success: the next challenge for micro-finance", American Enterprise Institute for Public Policy Research, Development Policy Outlook, No. 4, September 2006

World Bank, World Development Report 2005: A Better Investment Climate For Everyone, (Washington D.C.: World Bank, 2005)

World Economic Forum, International Finance Corporation & Rockefeller Foundation, "Private Investment for Social Goals: Building the blended value capital market", 2005


MUSANA
ECONOMY

For more information, please contact:

Susie Haries, Barclays
susie.hares@barclays.com

Tom Burstow, UNICEF
Tomb@unicef.org.uk

A girl studies at Umubano II Primary School, Western Province, Rwanda. UNICEF provides educational supplies and supports teacher-training at the child-friendly school.
© UNICEF/HQ07-1343/Giacomo Pirozzi